

8X8 INC /DE/
Form 10-K
May 24, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the fiscal year ended March 31, 2012

Commission file number 000-21783

(Exact name of Registrant as Specified in its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

77-0142404

(I.R.S. Employer Identification Number)

810 West Maude Avenue
Sunnyvale, CA 94085

(Address of Principal Executive Offices including Zip Code)

(408) 727-1885

(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which
registered

COMMON STOCK, PAR VALUE \$.001 PER

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NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES ☐ NO ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file reports), and (2) has been subject to such filing requirements for the past 90 days. YES ☒ NO ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ☒ NO ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	<input checked="" type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company
<input type="checkbox"/>	<input type="checkbox"/>		(Do not check if a smaller reporting company)	<input type="checkbox"/>	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

YES ☐ NO ☒

Based on the closing sale price of the Registrant's common stock on the NASDAQ Capital Market System on September 30, 2011, the aggregate market value of the voting stock held by non-affiliates of the Registrant was \$276,930,119. For purposes of this disclosure, shares of common stock held by persons who hold more than 5% of the outstanding shares of common stock and shares held by officers and directors of the Registrant have been excluded because such persons may be deemed to be affiliates. The determination of affiliate status for this purpose is not necessarily a conclusive determination for any other purpose.

The number of shares of the Registrant's common stock outstanding as of May 16, 2012 was 70,708,589.

DOCUMENTS INCORPORATED BY REFERENCE

Items 10, 11, 12, 13 and 14 of Part III incorporate information by reference from the Proxy Statement to be filed within 120 days of March 31, 2012 for the 2012 Annual Meeting of Stockholders.

Note: PDF provided as a courtesy

8X8, INC.

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FOR YEAR ENDED MARCH 31, 2012

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PART I

ITEM 1. BUSINESS

Forward-Looking Statements and Risk Factors

Statements contained in this annual report on Form 10-K, or Annual Report, regarding our expectations, beliefs, estimates, intentions or strategies are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. For example, words such as "may," "will," "should," "estimates," "predicts," "potential," "continue," "strategy," "believes," "anticipates," "plans," "expects," "intends," and similar expressions are intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Actual results and trends may differ materially from historical results or those projected in any such forward-looking statements depending on a variety of factors. These factors include, but are not limited to, customer acceptance and demand for our voice over Internet protocol, or VoIP, telephony products and services, the reliability of our services, the prices for our services, customer renewal rates, customer acquisition costs, actions by our competitors, including price reductions for their telephone services, potential federal and state regulatory actions, compliance costs, potential warranty claims and product defects, our needs for and the availability of adequate working capital, our ability to innovate technologically, the timely supply of products by our contract manufacturers, potential future intellectual property infringement claims that could adversely affect our business and operating results, and our ability to retain our listing on the NASDAQ Capital Market. The forward-looking statements may also be impacted by the additional risks faced by us as described in this Report, including those set forth under the section entitled "Risk Factors." All forward-looking statements included in this Annual Report are based on information available to us on the date hereof, and we assume no obligation to update any such forward-looking statements. Readers are urged to carefully review and consider the various disclosures made in this Annual Report, which attempt to advise interested parties of the risks and factors that may affect our business, financial condition, results of operations and prospects.

Our fiscal year ends on March 31 of each calendar year. Each reference to a fiscal year in this Annual Report, refers to the fiscal year ended March 31 of the calendar year indicated (for example, fiscal 2012 refers to the fiscal year ended March 31, 2012). Unless the context requires otherwise, references to "we," "us," "our," "8x8" and the "Company" refer to 8x8, Inc. and its consolidated subsidiaries.

Overview

8x8 develops and markets telecommunications services for Internet protocol, or IP, telephony and video applications as well as contact center, web-based conferencing and unified communications services, and cloud-based computing services. We offer the 8x8 Virtual Office hosted PBX (private branch exchange) service, 8x8 Virtual Contact Center service, 8x8 Virtual Office Pro unified communications solution and 8x8 Cloud-Based Computing Solutions.

We initially marketed our services under the Packet8 brand. In May 2009, we began marketing our services under the 8x8 brand. As of March 31, 2012, we had more than 28,500 business customers who use our services as their primary business telephone system, including IP dial tone, long distance and all of the business class features typically associated with a traditional business phone system or PBX. Each business customer subscribes to a number of various lines and services (*e.g.* physical phone extensions, virtual extensions, fax lines, toll free numbers, receptionist software, and unified communications services).

Available Information

We were incorporated in California in February 1987 and reincorporated in Delaware in December 1996. We maintain a corporate Internet website at the address <http://www.8x8.com>. The contents of this website are not incorporated in or otherwise to be regarded as part of this Annual Report. We file reports with the Securities and Exchange Commission, or SEC, which are available on our website free of charge. These reports include annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports, each of which is provided on our website as soon as reasonably practical after we electronically file such materials with or furnish them to the SEC. You can also read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. You can obtain additional information about the operation of the Public Reference Room by calling the SEC at 1.800.SEC.0330. In addition, the SEC maintains a website (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including 8x8.

Industry Background

We employ cloud-based technology, known as Voice over Internet Protocol ("VoIP"), to deliver our services. VoIP technology enables communications over the Internet through the compression of voice, video and/or other media into data packets that can be efficiently transmitted over data networks and then converted back into the original media at the other end. Data networks, such as the Internet or local area networks, or LANs, have always utilized packet-switched technology to transmit information between two communicating terminals (for example, a PC downloading a page from a web server, or one computer sending an e-mail message to another computer). IP is the most commonly used protocol for communicating on these packet switched networks. VoIP allows for the transmission of voice, video and data over these same packet-switched networks, providing an alternative to traditional telephone networks which use a fixed electrical path to carry voice signals through a series of switches to a destination.

As a result of the potential cost savings and added features of VoIP, many consumers, enterprises, traditional telecommunication service providers and cable television providers view VoIP as the future of telecommunications. VoIP has experienced significant growth in recent years due to:

- Demand for lower cost telephone service;
- Improved quality and reliability of VoIP calls due to technological advances, increased network development and greater bandwidth capacity;
- New product innovations that allow VoIP providers to offer services not currently offered by traditional telephone companies; and
- Increased awareness of the capabilities and benefits of cloud-based Software as a Service ("SaaS") alternatives to traditional premises-based systems

The traditional telephone networks maintained by many local and long distance telephone companies, known as the public- switched telephone networks, or PSTN, were designed solely to carry low-fidelity audio signals with a high level of reliability. Although these traditional telephone networks are very reliable for voice communications, we believe these networks are not well-suited to service the explosive growth of digital communication applications for the following reasons:

- They are expensive to build because each subscriber's telephone must be individually connected to the central office switch, which is usually several miles away from a typical subscriber's location;
- They transmit data at very low rates and resolutions, making them poorly suited for delivering high-fidelity audio, entertainment-quality video or other rich multimedia content;
- They use dedicated circuits for each telephone call which allot fixed bandwidth throughout the duration of each call, whether or not voice is actually being transmitted, which is an inefficient use of the investment in the network; and
- They may experience difficulty in providing new or differentiated services or functions, such as video communications, that the network was not originally designed to accommodate.

Until recently, traditional telephone companies have avoided the use of packet-switched networks for transmitting voice calls due to the potential for poor sound quality attributable to latency issues (delays) and lost packets which can prevent real-time transmission. Recent improvements in packet-switching technology, compression and broadband access technologies, as well as improved hardware and provisioning techniques, have significantly improved the quality and usability of packet-switched voice calls.

Historically, packet-switched networks were built mainly for carrying non real-time data, although they are now fully capable of transmitting real time data. The advantages of such networks are their efficiency, flexibility and scalability. Bandwidth is only consumed when needed. Networks can be built in a variety of configurations to suit the number of users, client/server application requirements and desired availability of bandwidth, and many terminals can share the same connection to the network. As a result, significantly more traffic can be transmitted over a packet-switched network, such as a home network or the Internet, than a circuit-switched telephony network. Packet-switching technology allows service providers to converge their traditionally separate voice and data networks and more efficiently utilize their networks by carrying voice, video, facsimile and data traffic over the same network. The improved efficiency of packet switching technology creates network cost savings that can be passed on to the consumer in the form of lower telephony rates.

The growth of the Internet in recent years has proven the scalability of these underlying packet-switched networks. As broadband connectivity, including fiber lines, cable modem and digital subscriber line ("DSL"), has become more available and less expensive, it is now possible for service providers like 8x8 to offer SaaS applications such as voice and video that run over these IP networks to businesses and residential consumers. Providing such services has the potential to both substantially lower the cost of telephone service and equipment to these customers and increase the breadth of features available to our subscribers. Services like full-motion, two-way video are now supported by the bandwidth spectrum commonly available to broadband customers.

The growing adoption of VoIP in the business community is part of a broader technological migration now occurring from traditional on-premise IT systems to cloud-based alternatives accessible from any location, network or device. This dramatic shift is enabling businesses to transition deployment and management of their IT infrastructure from a capital expenditure model to an operating expense approach, freeing valuable internal resources while gaining increased flexibility, capabilities and performance. According to a Frost & Sullivan March 2012 report, the inflection point for hosted/cloud communications has arrived as businesses have become more focused on issues such as cost management, accommodating dispersed and mobile workforces and the need to re-assign administrative IT staff to more strategic tasks.

Our Strategy

Our objective is to provide reliable, scalable, and profitable worldwide Internet-based communications services with unmatched quality by leveraging our patented software technologies to deliver innovative, competitively priced offerings. We intend to bring the best possible voice, video, unified communications, managed hosting and cloud-based computing services at an affordable price to businesses and enhance the ways in which these customers communicate with each other and the world. We intend to continue to focus our marketing primarily towards our business customer services.

Specific strategies to accomplish this objective include:

- *Build an indirect sales channel.* Our direct sales force generated more than 95% of our sales in fiscal 2012. In fiscal 2013, we intend to continue to build an indirect sales channel to expand distribution of our products and services. We intend to leverage our commercial relationships with our equipment vendors and the experience of our sales team to market our services. In addition, we intend to engage with other indirect sales channels to market our services.
- *Capitalize on our technological expertise to introduce new products and features.* Over the past 10 years, we have developed or acquired several core technologies that form the backbone of our video and VoIP service which we intend to use to develop product enhancements and future products. We developed the core software associated with the Virtual Office product line including the call control engine, protocol stacks and network address translation ("NAT") traversal firmware for the customer premise equipment. As a result, we are able to update the software functionality of our services without third party assistance and limit the

distribution of our unique customer premise equipment features such as NAT traversal to customer premise equipment that is sold in conjunction with our services. We were the first VoIP service provider to ship two-way video-enabled hardware, and our 8x8 Virtual Office services are among the most feature-rich hosted VoIP business services in the industry.

- *Offer the best possible service and support to our customers with a world class customer support organization.* We have an established call center and customer support group at our headquarters in Sunnyvale, California and outsourced call center operation located in Santa Maria, California. We also have invested in significant upgrades to our existing back office infrastructure to enhance the support we can provide to new and existing subscribers,

as well as our distribution partners. Our strengths include customer service from technically sophisticated customer service agents providing support from onshore facilities located in California.

Our Services

Our services work over virtually any high-speed Internet connection worldwide to allow calls to or from any phone in the world, whether that phone is an IP phone, a mobile phone or a PSTN phone. 8x8's service utilizes IP customer premise equipment to enable plug and play installation and a familiar dial tone user interface. The 8x8 service also uses web-based technologies to enable unified communications services such as web conferencing and Internet fax as well as account setup, account management, billing and customer support. We have developed proprietary implementation of standards-based technologies underlying our 8x8 service, which works with third party carriers to terminate VoIP calls on the PSTN network. As part of the 8x8 service, we currently resell IP telephones and videophones that utilize derivatives of our licensed semiconductor technology and unique software modifications to the protocol and application code that enable them to connect to the 8x8 IP services platform. We continue to enhance and develop new functionality in the software code that is embedded in these devices.

8x8 Virtual Office Business Telephone Service

Our 8x8 Virtual Office business telephone service was launched in March 2004 and is targeted at the small and medium-sized business market. 8x8 Virtual Office is an affordable, easy-to-use alternative to traditional PBX systems or Centrex class services from legacy telecommunications providers that offers features and services neither provide. 8x8 Virtual Office allows users with a high-speed Internet connection anywhere in the world to be part of a virtual PBX that includes automated attendants to assist callers, conference bridges, extension-to-extension dialing and ring groups, in addition to a rich variety of other business class PBX features normally found on dedicated PBX equipment. 8x8 Virtual Office extensions do not require a dedicated communications infrastructure. The service is received through an office's existing Internet connection, thus eliminating the need for additional phone lines or digital subscriber lines for extensions, in contrast to traditional Centrex or PBX products. The service is provided by 8x8 software that runs on computing platforms located in our data centers.

8x8 Virtual Office subscribers have the ability to choose any phone number available to 8x8 subscribers regardless of a user's geographic location. Subscribers also can port existing telephone numbers, including toll-free numbers, from other service providers at no additional cost. Each extension in the virtual PBX can be located anywhere in the world that is serviced by a high-speed Internet connection. 8x8 Virtual Office extension-to-extension calls and transfers are accomplished over the Internet, anywhere in the world, free of extra charges from third party telecommunications carriers. 8x8 Virtual Office offers the following essential services for small and medium-sized businesses:

- Auto-attendant providing dial by extension, name or group;
- Unlimited calling to the US, Canada, 20 additional countries and other 8x8 subscribers, as well as low international rates;
- Unlimited 8x8 extension-to-extension dialing anywhere in the world;
- Direct Inward Dial (DID) phone number with any desired area code for each extension;
- Conference bridge, 3-way calling, music on hold, call park/pick-up, call transfer, hunt groups, and do not disturb;
- Business-class voice mail including email alerts and direct transfer to mailbox;
- Call waiting / Caller-ID;
- Distinctive tone ringing, and
- Optional receptionist console application offering:
 - ◆ Multiple call viewing and handling;
 - ◆ Direct transfer to extension's voicemail;
 - ◆ Supervised transfers; and
 - ◆ View of extension status.

8x8 Virtual Contact Center

The 8x8 Virtual Contact Center, introduced in July 2007, and the technology acquired from Contactual, Inc. ("Contactual") is a fully integrated hosted call center solution that works with any broadband Internet connection and provides enterprise class contact center functionality combined with Virtual Office calling features. The 8x8 Virtual Contact Center allows companies to quickly deploy and operate multi-channel contact centers within 8x8's Virtual Office infrastructure without the time and expense of purchasing, installing and maintaining costly, specialized equipment. Delivered entirely as a hosted service, the 8x8

Virtual Contact Center requires no specialized hardware or software, no telecom equipment and no up-front capital expenditures, making it an ideal solution for blending in-house, offsite or multi-site call center agents. Agents require nothing more than a web browser and a suitable voice device that can be provided by 8x8 or a third party service provider.

The 8x8 Virtual Contact Center service offers features such as skills-based routing, multi-media management, real time monitoring and reporting, voice recording and logging, historical reporting, Interactive Voice Response, CRM integration with Salesforce.com and NetSuite, and contact and case management tools.

8x8 IP Telephones

In the second half of fiscal 2011, we began selling four models of Polycom IP phones and three models of Polycom IP speakerphones. The Polycom IP phones deliver enhanced equipment and service features including high definition HD audio, corporate directory display and lookup, intercom paging, shared line appearance and Power over Ethernet capability. In fiscal 2012, we began selling Cisco IP Phones.

In the second quarter of fiscal 2009, we launched the 8x8 675xi series of IP phones that incorporated 8x8's advanced NAT traversal technologies to facilitate the network-independent operational advantages of the 8x8 service. These advantages include the ability to simply plug the phone into any public or private Internet connection and immediately make or receive calls without performing any network or firewall configuration changes.

8x8 Virtual Office Pro Unified Communications

Introduced in January 2010, 8x8 Virtual Office Pro is a powerful unified communications service that allows subscribers to manage essential, advanced business communications functions online through a centralized web-based portal via a PC, laptop, tablet or smartphone. Integrated with the 8x8 Virtual Office phone service, Virtual Office Pro enhances business productivity by providing users with a complete, instantly accessible suite of communication tools used in everyday business interactions. In October 2010, we began selling the Virtual Office Pro service on a standalone basis so that a business customer would no longer be required to buy a physical IP telephone from us in order to access our Virtual Office services.

8x8 Virtual Office Pro delivers these tools through an easy-to-use online dashboard which provides:

- A visual overview and online control of 8x8 Virtual Office business calling activity including point-and-click access to inbound and outbound calls and call management features such as call transfer, do not disturb (DND) and call forwarding;
- Microsoft Outlook Contacts and Corporate Directory integration;
- Virtual Meeting - allows subscribers to create, join and invite participants to web, audio and video meetings;
- Virtual Office Mobile extension - to place and receive VoIP calls and access common Virtual Office services and functions from an iPhone/iPod Touch/iPad/Android mobile handset;
- Fax - enables users to send and receive unlimited faxes using either a separate phone number for fax or the same number as your 8x8 extension;
- Call recording - enables any inbound or outbound call to be recorded and later reviewed, downloaded or deleted;
- Presence management - tells other co-workers whether a user is logged in, logged off, on the phone, off the phone or currently unavailable; and
- My Inbox overview - gives a comprehensive view of all voicemails, recordings, FAX messages, calls, and chat history.

8x8 Cloud-Based Computing Solutions

In May 2010, we introduced 8x8 managed hosting and cloud-based computing solutions that enable business customers to reduce costs and gain performance and reliability advantages by eliminating in-house ownership of server equipment and costly information technology systems management staff.

Sales, Marketing and Promotional Activities

We currently sell and market our 8x8 services to end users through our direct sales force, website, and third party resellers. Our inside sales force primarily handles inbound telephone calls and website leads which are generated from third party lead generation sources and direct web advertising such as Google, or traditional advertising channels such as in-flight magazines.

Our sales departments consisted of 100 employees at the end of fiscal 2012. Sales representatives are paid a base salary and monthly commission for selling our products and services. The commission is based on new sales made by the sales representative.

Competition

We face strong competition from incumbent telephone companies, cable companies and alternative voice and video communication providers. Because most of our target customers are already purchasing communications services from one or more of these providers, our success is dependent upon our ability to attract these customers away from their existing providers. This will potentially become more difficult as the early adopter market for VoIP services becomes saturated and mainstream customers make up more of our target market. We believe that the principal competitive factors affecting our ability to attract and retain customers are price, call quality, reliability, customer service, and enhanced services and features. For more information regarding the risks associated with such strong competition, please refer to Item 1A, Risk Factors, included under the heading "**Intense competition in the markets in which we compete could prevent us from increasing or sustaining our revenue and increasing or maintaining profitability.**"

Incumbent telephone companies

The incumbent telephone companies are our primary competitors and have historically dominated their regional markets. These competitors include AT&T, CenturyLink and Verizon Communications as well as rural incumbents, such as Windstream. These competitors are substantially larger and better capitalized than we are and have the advantage of a large existing customer base, and larger marketing budgets than we have. Moreover, they also provide some of the broadband services that are required to use our service, which is a significant competitive advantage.

Vendors of private branch exchange ("PBX") systems and alternative voice communications providers

Competitors for the 8x8 business service include traditional PBX and key system manufacturers and their resellers, including Cisco Systems, Inc., Avaya Holdings Corp., Mitel Networks Corporation, ShoreTel, Inc. and Toshiba, Centrex services offered by incumbent telephone companies, and VoIP services offered by XO Communications, Cbeyond, Inc. and other companies.

Operations

We have a centrally managed platform consisting of data management, monitoring, control and billing systems that support all of our products and services. We have invested substantial resources to develop and implement our real-time call management information system. Key elements of this system include a prospective customer quotation portal, customer provisioning, customer access, fraud control, network security, call routing, call monitoring, media processing and normalization, call reliability, and detailed call record storage and billing. Our platform monitors our process of digitizing and compressing voice and video into packets and transmitting these packets over data networks around the world. We maintain a call switching platform in software that manages call admission, call control, call rating and routes calls to an appropriate destination or customer premise equipment. Unless the recipient is using an Internet telephony device, the outgoing packets (representing a voice and/or video call initiated by an 8x8 subscriber) are sent to one of our partner telecommunications carriers, where the call is transferred to the PSTN and directed to a regular telephone anywhere in the world. Our billing and back office systems manage and enroll customers and bill calls as they originate and terminate on the service.

Network Operations Center

We maintain a network operations center at our headquarters in Sunnyvale, California and employ a staff of 32 individuals with experience in voice and data operations to provide 24-hour operations support, 7 days per week. We

use various tools to monitor and manage all elements of our network and our partners' networks in real-time. We also monitor the network elements of some of our larger business customers. Additionally, our network operations center provides technical support to troubleshoot equipment and network problems. We also rely upon the network operations centers and resources of our telecommunications carrier partners to augment our monitoring and response efforts.

Customer and Technical Support

We maintain a call center at our headquarters in Sunnyvale, California and have a staff of 86 employees and contractors that provide customer service and technical support to customers. In addition, we have outsourced some customer support activities to third parties. Customers who access our services directly through our web site receive customer service and

technical support through multilingual telephone communication, web-based and "chat" sessions, and e-mail support.

Interconnection Agreements

We are a party to telecommunications interconnect and service agreements with VoIP providers and PSTN telecommunications carriers, such as Level(3) Communications and Inteliquent. Pursuant to these agreements, VoIP calls originating on our network can be terminated on other VoIP networks or the PSTN. Correspondingly, calls originating on other VoIP networks and the PSTN can be terminated on our network. While we believe that relations with these providers and carriers are good, we have no assurance that these partners will be able or willing to supply services to us in the future.

Research and Development

The VoIP market is characterized by rapid technological changes and advancements. Accordingly, we make substantial investments in the design and development of new products and services, as well as the development of enhancements and features to our existing 8x8 products and services. Future development also will focus on the use and interoperability of our products and services with emerging audio and video telephony standards and protocols, quality and performance enhancements to multimedia compression algorithms, support of new customer premise equipment, new unified services and the enhancement of existing products and services that are essential to our success.

We currently employ 39 individuals in research, development and engineering activities in our facilities in Sunnyvale, California. Research and development expenses in each of the fiscal years ended March 31, 2012, 2011 and 2010 were \$6.7 million, \$4.8 million and \$5.0 million, respectively.

Regulatory

Although several regulatory proceedings are underway or are being contemplated by federal and state authorities, including the Federal Communications Commission ("FCC") and state regulatory agencies, VoIP communication services, like ours, have been subject to less regulation at the state and federal levels than traditional telecommunications services. Providers of traditional telecommunications services are subject to the highest degree of regulation, while providers of information services are largely exempt from most federal and state regulations governing traditional common carriers. The FCC has subjected VoIP service providers to a smaller subset of regulations that apply to traditional telecommunications service providers and have not yet classified VoIP services as either telecommunications or information. The FCC is currently examining the status of VoIP service providers and the services they provide in multiple open proceedings.

The effect of any future laws, regulations and orders on our operations, including, but not limited to, the 8x8 service, cannot be determined. But as a general matter, increased regulation and the imposition of additional funding obligations increases service costs that may or may not be recoverable from our customers, which could result in making our services less competitive with traditional telecommunications services if we increase our retail prices or decreasing our profit margins if we attempt to absorb such costs.

Regulation of the Internet

In addition to regulations addressing Internet telephony and broadband services, other regulatory issues relating to the Internet, in general, could affect our ability to provide our services. Congress has adopted legislation that regulates certain aspects of the Internet including online content, user privacy, taxation, liability for third-party activities and jurisdiction. In addition, a number of initiatives pending in Congress and state legislatures would prohibit or restrict advertising or sale of certain products and services on the Internet, which may have the effect of raising the cost of doing business on the Internet generally.

Federal, state, local and foreign governmental organizations are considering other legislative and regulatory proposals that would regulate and/or tax applications running over the Internet. We cannot predict whether new taxes will be imposed on our services, and depending on the type of taxes imposed, whether and how our services would be affected thereafter. Increased regulation of the Internet may decrease its growth and hinder technological development, which may negatively impact the cost of doing business via the Internet or otherwise materially adversely affect our business, financial condition and results of operations.

Intellectual Property and Proprietary Rights

Our ability to compete depends, in part, on our ability to obtain and enforce intellectual property protection for our technology in the United States and internationally. We currently rely primarily on a combination of trade secrets, patents, copyrights, trademarks and licenses to protect our intellectual property. As of March 31, 2012, we had been issued 79 United States patents and additional United States and foreign patent applications are pending. Our patents expire on dates ranging from 2012 to 2028. We cannot predict whether our pending patent applications will result in issued patents.

To protect our trade secrets and other proprietary information, we require our employees to sign agreements providing for the maintenance of confidentiality and also the assignment of rights to inventions made by them while in our employ. There can be no assurance that our means of protecting our proprietary rights in the United States or abroad will be adequate or that competition will not independently develop technologies that are similar or superior to our technology, duplicate our technology or design around any of our patents. In addition, the laws of foreign countries in which our products are or may be sold do not protect our intellectual property rights to the same extent as do the laws of the United States. Our failure to protect our proprietary information could cause our business and operating results to suffer.

We are also subject to the risks of adverse claims and litigation alleging infringement of the intellectual property rights of others. Such claims and litigation could require us to expend substantial resources and distract key employees from their normal duties, which could have a material adverse effect on our operating results, cash flows and financial condition. The communications and software industries are subject to frequent litigation regarding patent and other intellectual property rights. Moreover, the VoIP service provider community has historically been a target of patent holders. There is a risk that we will be a target of assertions of patent rights and that we may be required to expend significant resources to investigate and defend against such assertions of patent rights. For example:

- On May 2, 2008, we received a letter from AT&T Intellectual Property, L.L.C. ("AT&T IP") expressing the belief that we must license a specified patent for use in our 8x8 broadband telephone service, as well as suggesting that we obtain a license to its portfolio of MPEG-4 patents for use with our video telephone products and services. At the same time, we began an evaluation of whether AT&T IP's affiliated entities may need to license any of our patents or other intellectual property. We have continued to engage in discussions with AT&T IP to explore a mutually agreeable resolution of our respective assertions regarding these intellectual property issues. We are unable at this time to state whether we will enter into any license or cross-license agreements with AT&T IP or whether we ultimately anticipate any material effects on our operating results or financial condition as a consequence of these matters.
- On March 15, 2011, we were named a defendant in a lawsuit, Bear Creek Technologies, Inc. v. 8x8, Inc. et al., along with more than 20 other defendants. More information regarding this suit is provided below under Part I, Item 3. "LEGAL PROCEEDINGS."
- On October 25, 2011, we were named a defendant in a lawsuit, Klausner Technologies, Inc. v. Oracle Corporation et al., along with 30 other defendants. More information regarding this suit is provided below under Part I, Item 3. "LEGAL PROCEEDINGS."

We rely upon certain technology, including hardware and software, licensed from third parties. There can be no assurance that the technology licensed by us will continue to provide competitive features and functionality or that licenses for technology currently utilized by us or other technology which we may seek to license in the future will be available to us on commercially reasonable terms or at all. The loss of, or inability to maintain, existing licenses could result in shipment delays or reductions until equivalent technology or suitable alternative products could be developed, identified, licensed and integrated, and could harm our business. These licenses are on standard commercial terms made generally available by the companies providing the licenses. To date, the cost and terms of these licenses individually has not been material to our business.

Geographic Areas

Most of our customers and substantially all of our revenues are in the U.S. Revenue from customers outside the United States was not material for the fiscal years ended March 31, 2012, 2011 and 2010.

Employees

As of March 31, 2012, our workforce consisted of 301 employees. None of our employees are represented by a labor union or are subject to a collective bargaining arrangement.

Executive Officers of the Registrant

Our executive officers as of the date of this report are listed below.

Bryan R. Martin, Chairman and Chief Executive Officer.

Bryan R. Martin, age 44, has served as Chairman of the Board of Directors since December 2003 and as Chief Executive Officer and as a director since February 2002. From March 2007 to November 2008, and again from April 2011 to December 2011, he has served as President. From February 2001 to February 2002, he served as our President and Chief Operating Officer. He served as our Senior Vice President, Engineering Operations from July 2000 to February 2001 and as Chief Technical Officer from August 1995 to August 2000. He also served as a director of the Company from January 1998 through July 1999. In addition, Mr. Martin served in various technical roles for the Company from April 1990 to August 1995. He received a B.S. and an M.S. in Electrical Engineering from Stanford University.

Dan Weirich, Chief Financial Officer.

Dan Weirich, age 38, has served as our Chief Financial Officer since July 2006. From November 2008 to March 2011, Mr. Weirich also served as our President. From June 2006 to July 2006, Mr. Weirich served as our Acting Chief Financial Officer. He was our Vice President of Operations from April 2006 to June 2006 and Director of Strategic Sales from March 2004 to April 2006. Prior to joining us, Mr. Weirich served in various roles for iAsiaWorks, Qwest Communications and Phoenix Network. He received a B.S. in International Business from the University of Colorado at Boulder.

Kim Niederman, President.

Kim Niederman, age 60, has served as our President since January 2012. From February 2011 to December 2011, Mr. Niederman served as our Senior Vice President of Sales. From February to November 2010, Mr. Niederman was Senior Vice President of NComputing, Inc. and from January 2007 to January 2009, Mr. Niederman was Chief Executive Officer and President of Anagran, Inc. From January 2003 to January 2007, Mr. Niederman was Senior Vice President of Worldwide Sales for Polycom, Inc. He received a B.A. from the University of Denver.

Ramprakash Narayanaswamy, Chief Technology Officer and Vice President of Engineering.

Ramprakash Narayanaswamy, age 47, was appointed Chief Technology Officer in April 2010 and is responsible for our research, development and engineering operations. From February 2005 to April 2010, Mr. Narayanaswamy held multiple numerous engineering roles including Vice President, Engineering. Between 1992 and 2005, Mr. Narayanaswamy served in various engineering roles for Nextance Inc., Bluelight.com and Sun Microsystems, Inc. He received his Masters degree in Computer Applications from National Institute of Technology, Tiruchirapalli, India.

Debbie Jo Severin, Chief Marketing Officer and Vice President of Marketing.

Debbie Jo Severin, age 52, has served as our Chief Marketing Officer and Vice President of Marketing since March 2009. From 2003 to March 2009, Ms. Severin served as Vice President of Marketing for Covad Communications. Prior to Covad Communications, Ms. Severin worked at PrimeOne Tele-TV, Northpoint Communications, Valiant Networks, BellSouth Telecommunications and Pacific Bell. She received a Masters Degree in Mathematics and a Bachelor of Science from the University of Alabama, Birmingham.

ITEM 1A. RISK FACTORS

If any of the following risks actually occur, our business, results of operations and financial condition could suffer significantly.

The success of our Company is dependent on the growth and public acceptance of our services.

Our future success depends on our ability to significantly increase revenues generated from our services. In turn, the success of our voice and video communications services depends, among other things, upon future demand for VoIP telephony systems and services. Because the use of our service requires that the user be a subscriber of an existing broadband Internet service, usually provided through a cable or digital subscriber line, or DSL, connection, slow or limited adoption of broadband Internet service could adversely affect the growth of our subscriber base and revenues. Although the number of broadband subscribers worldwide has grown significantly over the last five years, VoIP

service has not yet been adopted by a majority of prospective business customers. According to a report filed by the FCC in October 2011, approximately 7.5% of access lines to businesses in the United States utilize interconnected VoIP services. To increase the deployment of broadband Internet services from broadband Internet service providers, telephone companies and cable companies must continue to invest in the deployment of high speed broadband networks to residential and business customers, over which we have no control. In addition, VoIP networks must improve quality of service for real-time communications, managing effects such as packet jitter, packet loss,

and unreliable bandwidth, so that toll-quality service can be consistently provided. VoIP telephony equipment and services must achieve a similar level of reliability that users of the PSTN have come to expect from their telephone service, and the cost and feature benefits of VoIP must be sufficient to cause customers to switch away from traditional telephony service providers. We must devote substantial resources to educate customers and end users about the benefits of VoIP telephony solutions, in general, and our services in particular. Substantial, ongoing interaction with our customers in order to train and assist them with the deployment and use of our services over these networks is sometimes required. If any or all of these factors fail to occur, our business may be affected adversely.

The impact of the current economic climate and adverse credit markets may impact customer demand for our products and services.

Many of our existing and target customers are in the small and medium business sector. Although we believe our products and services are less costly than traditional telephone services, these businesses may be more likely to be significantly affected by economic downturns than larger, more established businesses. They also may be more likely to require working capital financing from local and regional banks whose lending activities have been reduced substantially since 2008, as a result of which the existing and target customers may lack the funds necessary to add new equipment and services such as ours. Additionally, these customers often have limited discretionary funds which they may choose to spend on items other than our products and services. If small and medium businesses continue to experience economic hardship, this could negatively affect the overall demand for our products and services, delay and lengthen sales cycles and lead to slower growth or even a decline in our revenue, net income and cash flows.

Although the majority of our billing arrangements with customers are prepaid, we regularly monitor the percentage of customers who cease to pay for our services due to closing or downsizing their business. In general, our customers may terminate their subscriptions for our services on 30 days notice. Even though our customer churn rates improved in fiscal 2012, we believe that more than 50% of our total customer churn is related to customers' financial condition and cannot be certain that we will continue to experience the same improvement in churn rates given current economic conditions. Additionally, the combination of our sales cycle coupled with challenging economic conditions could have a negative impact on the results of our operations.

We have a history of losses and are uncertain of our future profitability.

We recorded operating income of approximately \$7.2 million for the fiscal year ended March 31, 2012 and ended the period with an accumulated deficit of \$123 million. We recorded operating income of approximately \$6.2 million and \$4.0 million for the fiscal years ended March 31, 2011 and 2010, respectively. Although we have achieved operating income in each of our three most recent fiscal years, we suffered operating losses in each of the three prior fiscal years and may incur operating losses in the foreseeable future, which may be substantial. We will need to increase revenues in order to generate sustainable operating profit. Given our history of fluctuating revenues and operating losses, we cannot be certain that we will be able to maintain operating profitability on an annual basis or on a quarterly basis in the future.

Our business depends on continued and unimpeded access to the Internet by us and our users. Internet access providers and Internet backbone providers may be able to block, degrade or charge for access to or bandwidth use of certain of our products and services, which could lead to additional expenses and the loss of users.

Our products and services depend on the ability of our users to access the Internet, and certain of our products require significant bandwidth to work effectively. Currently, this access is provided by companies that have significant and increasing market power in the broadband and Internet access marketplace, including incumbent telephone companies, cable companies and mobile communications companies. Some of these providers offer products and services that directly compete with our own offerings, which give them a significant competitive advantage. Some of these providers have stated that they may take measures that could degrade, disrupt or increase the cost of user access to certain of our products by restricting or prohibiting the use of their infrastructure to support or facilitate our offerings,

or by charging increased fees to us or our users to provide our offerings, while others, including some of the largest providers of broadband Internet access services, have committed to not engaging in such behavior.

On December 23, 2010, the FCC adopted an order that imposes "network neutrality" obligations on providers of fixed and wireless broadband Internet access services, with wireless providers subject to a more limited set of rules. Among other things, the rules: (1) require providers of consumer broadband Internet access to publicly disclose their network management practices and the performance and commercial terms of their broadband Internet access services; (2) prevent broadband Internet access providers from blocking lawful content, applications, services, or non-harmful devices, subject to reasonable network

management; and (3) prevent broadband Internet access providers from unreasonably discriminating in the transmission of lawful network traffic over a consumer's broadband Internet access service. The FCC rules became effective on November 20, 2011. Numerous parties have appealed these rules which have been consolidated before the U.S. Court of Appeals for the District of Columbia. We cannot predict the outcome of these appeals or the impact of these rules on our business at this time. Although we believe interference with access to our products and services is unlikely, broadband Internet access provider interference has occurred, in limited circumstances in the U.S., and could result in a loss of existing users and increased costs, and could impair our ability to attract new users, thereby negatively impacting our revenue and growth.

Intense competition in the markets in which we compete could prevent us from increasing or sustaining our revenue and increasing or maintaining profitability.

The telecommunications industry is highly competitive. We face intense competition from traditional telephone companies, wireless companies, cable companies, competitive local exchange carriers, alternative voice communication providers and independent VoIP providers. In addition, our customers are not subject to long-term contractual commitments to purchase our services and can terminate our service and switch to competitors' offerings on short notice.

Most of our current and potential competitors, particularly incumbent telephone and cable companies, have longer operating histories, significantly greater resources and name recognition, and a larger base of customers than we have. As a result, these competitors may have greater credibility with our existing and potential customers. They also may be able to adopt more aggressive pricing policies and devote greater resources to the development, promotion and sale of their products than we can to ours. Our competitors may also offer bundled service arrangements offering a more complete product despite the technical merits or advantages of our products. Competition could decrease our prices, reduce our sales, lower our gross profits or decrease our market share.

We also compete against established alternative voice communication providers and face competition from other large, well-capitalized Internet companies that have recently launched or plan to launch VoIP-enabled services. In addition, we compete with independent VoIP service providers. Some of these service providers may choose to sacrifice revenue in order to gain market share by offering their services at lower prices or for free. In order to compete with such service providers, we may have to significantly reduce our prices, which would affect our profitability.

We also are subject to the risk that new technologies may be developed that are able to deliver competing voice services at lower prices, better or more conveniently. Future competition from new technologies could have a material adverse effect on our growth and operating results.

Given the significant price competition in the markets for our products, we are at a significant disadvantage compared to many of our competitors, especially those with substantially greater resources, and therefore may be better able to withstand an extended period of downward pricing pressure. The adverse impact of a shortfall in our revenues may be magnified by our inability to adjust spending to compensate for such shortfall. Announcements of new products and technologies by our competitors or us could cause customers to defer purchases of our existing products, which also could have a material adverse effect on our business, financial condition or operating results.

The VoIP telephony market is subject to rapid technological change, and we depend on new product and service introductions in order to maintain and grow our business.

VoIP telephony is an emerging market that is characterized by rapid changes in customer requirements, frequent introductions of new and enhanced products, and continuing and rapid technological advancement. To compete successfully in this emerging market, we must continue to design, develop, manufacture, and sell new and enhanced VoIP telephony software products and services that provide increasingly higher levels of performance and reliability

at lower cost.

Decreasing telecommunications rates and increasing regulatory charges may diminish or eliminate our competitive pricing advantage.

Decreasing telecommunications rates may diminish or eliminate the competitive pricing advantage of our services, while increased regulation and the imposition of additional regulatory funding obligations at the federal, state and local level could require us to either increase the retail price for our services, thus making us less competitive, or absorb such costs, thus decreasing our profit margins. International and domestic telecommunications rates have decreased significantly over the last few years in most of the markets in which we operate, and we anticipate these rates will continue to decline in all of the markets in which we do business or expect to do business. Users who select our services to take advantage of the current pricing differential between traditional telecommunications rates and our rates may switch to traditional telecommunications

carriers if such pricing differentials diminish or disappear, however, and we will be unable to use such pricing differentials to attract new customers in the future. Continued rate decreases would require us to lower our rates to remain competitive and would reduce or possibly eliminate any gross profit from our services. In addition, we may lose subscribers for our services.

Reform of federal and state Universal Service Fund programs could increase the cost of our service to our customers diminishing or eliminating our pricing advantage.

The FCC and a number of states are considering reform or other modifications to Universal Service Fund programs. The way we calculate our contribution may change if the FCC or certain states engage in reform or adopt other modifications. In April, 2012, the FCC released a Further Notice of Proposed Rulemaking to consider reforms to the manner in which companies, like us, contribute to the federal Universal Service Fund program. In general, the Further Notice of Proposed Rulemaking is considering questions like: what companies should contribute, how contributions should be assessed, and methods to improve the administration of the system. We cannot predict the outcome of this proceeding nor its impact on our business at this time.

Should the FCC or certain states adopt new contribution mechanisms or otherwise modify contribution obligations that increase our contribution burden, we will either need to raise the amount we currently collect from our customers to cover this obligation or absorb the costs, which would reduce our profit margins. Furthermore, the FCC has ruled that states can require us to contribute to state Universal Service Fund programs. A number of states already require us to contribute, while others are actively considering extending their programs to include the services we provide. We currently pass-through Universal Service Fund contributions to our customers which may result in our services becoming less competitive as compared to those provided by others.

We may become subject to state regulation for certain service offerings.

Certain states take the position that offerings by VoIP companies, like us, are intrastate and therefore subject to state regulation. These states argue that if the beginning and end points of communications are known, and if some of these communications occur entirely within the boundaries of a state, the state can regulate that offering. We believe that the FCC has pre-empted states from regulating VoIP offerings like ours in the same manner as providers of traditional telecommunications services. We cannot predict how this issue will be resolved or its impact on our business at this time.

We rely on third party network service providers to originate and terminate substantially all of our public switched telephone network calls.

We leverage the infrastructure of third party network service providers to provide telephone numbers, PSTN call termination and origination services, and local number portability for our customers rather than deploying our own network throughout the United States. This decision has resulted in lower capital and operating costs for our business in the short term but has reduced our operating flexibility and ability to make timely service changes. If any of these network service providers cease operations or otherwise terminate the services that we depend on, the delay in switching our technology to another network service provider, if available, and qualifying this new service could have a material adverse effect on our business, financial condition or operating results.

While we believe that relations with our current service providers are good, and we have contracts in place, there can be no assurance that these service providers will be able or willing to supply cost-effective services to us in the future or that we will be successful in signing up alternative or additional providers. Although we could replace our current providers, if necessary, our ability to provide service to our subscribers could be impacted during this timeframe, and this could have an adverse effect on our business, financial condition or results of operations. The loss of access to, or requirement to change, the telephone numbers we provide to our customers also could have a material adverse effect on our business, financial condition or operating results.

Due to our reliance on these service providers, when problems occur in a network, it may be difficult to identify the source of the problem. The occurrence of hardware and software errors, whether caused by our 8x8 service or another vendor's products, may result in the delay or loss of market acceptance of our products and any necessary revisions may force us to incur significant expenses. The occurrence of some of these types of problems may seriously harm our business, financial condition or operating results.

Our physical infrastructure is concentrated in a few facilities and any failure in our physical infrastructure or services could lead to significant costs and disruptions and could reduce our revenue, harm our business reputation and have a material adverse effect on our financial results.

Our leased network and data centers are subject to various points of failure. Problems with cooling equipment, generators, uninterruptible power supply, routers, switches, or other equipment, whether or not within our control, could result in service interruptions for our customers as well as equipment damage. Because our services do not require geographic proximity of our data centers to our customers, our infrastructure is consolidated into a few large facilities. Any failure or downtime in one of our data center facilities could affect a significant percentage of our customers. The total destruction or severe impairment of any of our data center facilities could result in significant downtime of our services and the loss of customer data. Because our ability to attract and retain customers depends on our ability to provide customers with highly reliable service, even minor interruptions in our service could harm our reputation. Additionally, in connection with the expansion or consolidation of our existing data center facilities from time to time, there is an increased risk that service interruptions may occur as a result of server relocation or other unforeseen construction-related issues.

We have experienced interruptions in service in the past. While we have not experienced a material increase in customer attrition following these events, the harm to our reputation is difficult to assess. We have taken and continue to take steps to improve our infrastructure to prevent service interruptions, including upgrading our electrical and mechanical infrastructure. However, service interruptions continue to be a significant risk for us and could materially impact our business.

Any future service interruptions could:

- Cause our customers to seek damages for losses incurred;
- Require us to replace existing equipment or add redundant facilities;
- Affect our reputation as a reliable provider of hosting services;
- Cause existing customers to cancel or elect to not renew their contracts; or
- Make it more difficult for us to attract new customers.

Any of these events could materially increase our expenses or reduce our revenue, which would have a material adverse effect on our operating results.

Increased energy costs, power outages, and limited availability of electrical resources may adversely affect our operating results.

Our data centers are susceptible to increased costs of power and to electrical power outages. Our customer contracts do not contain provisions that would allow us to pass on any increased costs of energy to our customers, which could affect our operating margins. Any increases in the price of our services to recoup these costs could not be implemented until the end of a customer contract term. Further, power requirements at our data centers are increasing as a result of the increasing power demands of today's servers. Increases in our power costs could impact our operating results and financial condition. Since we rely on third parties to provide our data centers with power sufficient to meet our needs, our data centers could have a limited or inadequate amount of electrical resources necessary to meet our customer requirements. We attempt to limit exposure to system downtime due to power outages by using backup generators and power supplies. However, these protections may not limit our exposure to power shortages or outages entirely. Any system downtime resulting from insufficient power resources or power outages could damage our reputation and lead us to lose current and potential customers, which would harm our operating results and financial condition.

Increased Internet bandwidth costs and network failures may adversely affect our operating results.

Our success depends in part upon the capacity, reliability, and performance of our network infrastructure, including the capacity leased from our Internet bandwidth suppliers. We depend on these companies to provide uninterrupted and error-free service through their telecommunications networks. Some of these providers are also our competitors. We exercise little control over these providers, which increases our vulnerability to problems with the services they provide. We have experienced and expect to continue to experience interruptions or delays in network service. Any failure on our part or the part of our third-party suppliers to achieve or maintain high data transmission capacity, reliability or performance could significantly reduce customer demand for our services and damage our business.

As our customer base grows and their usage of telecommunications capacity increases, we will be required to make additional investments in our capacity to maintain adequate data transmission speeds, the availability of which may be limited or the cost of which may be on terms unacceptable to us. If adequate capacity is not available to us as our customers' usage increases, our network may be unable to achieve or maintain sufficiently high data transmission capacity, reliability or performance. In addition, our business would suffer if our network suppliers increased the prices for their services and we were unable to pass along the increased costs to our customers.

We depend on contract manufacturers to manufacture substantially all of our products and third party vendors for IP phones, and any delay or interruption in manufacturing by these contract manufacturers or vendors would result in delayed or reduced shipments to our customers and may harm our business.

We do not have long-term purchase agreements with our contract manufacturers and we depend on a concentrated group of contract manufacturers for a substantial portion of manufacturing our products. There can be no assurance that our contract manufacturers will be able or willing to reliably manufacture our products, in volumes, on a cost-effective basis or in a timely manner. If we cannot compete effectively for the business of these contract manufacturers, or if any of the contract manufacturers experience financial or other difficulties in their businesses, our revenue and our business could be adversely affected. In particular, if one of our contract manufacturers becomes subject to bankruptcy proceedings, we may not be able to obtain any of our products held by the contract manufacturer.

We also rely on third party vendors for IP phones to utilize our service. We currently do not have long-term supply contracts with any of these vendors. As a result, most of these third party vendors are not obligated to provide products or perform services to us for any specific period, in any specific quantities or at any specific price, except as may be provided in a particular purchase order. The inability of these third party vendors to deliver IP phones of acceptable quality and in a timely manner, particularly the sole source vendors, could adversely affect our operating results or cause them to fluctuate more than anticipated. Additionally, some of our products may require specialized or high-performance component parts that may not be available in quantities or in time frames that meet our requirements.

Our infringement of a third party's proprietary technology would disrupt our business.

There has been substantial litigation in the communications, VoIP services, semiconductor, electronics, and related industries regarding intellectual property rights and, from time to time, third parties may claim infringement by us of their intellectual property rights. Our broad range of current and former technology, including IP telephony systems, digital and analog circuits, software, and semiconductors, increases the likelihood that third parties may claim infringement by us of their intellectual property rights. For example, on May 2, 2008, we received a letter from AT&T Intellectual Property, L.L.C. ("AT&T IP") expressing the belief that we must license a specified patent for use in our 8x8 broadband telephone service, as well as suggesting that we obtain a license to its portfolio of MPEG-4 patents for use with our video telephone products and services. At the same time, we began an evaluation of whether AT&T IP's affiliated entities may need to license any of our patents or other intellectual property. We have continued to engage in discussions with AT&T IP to explore a mutually agreeable resolution of the parties' respective assertions regarding these intellectual property issues. We are unable at this time to state whether we will enter into any license or cross-license agreements with AT&T IP or whether we ultimately anticipate any material effects on our operating results or financial condition as a consequence of these matters.

Certain technology necessary for us to provide our services may, in fact, be patented by other parties either now or in the future. If such technology were held under patent by another person, we would have to negotiate a license for the use of that certain technology. We may not be able to negotiate such a license at a price that is acceptable. The existence of such a patent, or our inability to negotiate a license for any such technology on acceptable terms, could force us to cease using such technology and offering products and services incorporating such technology.

We have recently been named as defendants in several patent infringement lawsuits.

For example:

- On March 15, 2011, we were named a defendant in a lawsuit, Bear Creek Technologies, Inc. v. 8x8, Inc. et al., along with more than 20 other defendants.
- On October 25, 2011, we were named a defendant in a lawsuit, Klausner Technologies, Inc. v. Oracle Corporation et al., along with 30 other defendants.

If we were found to be infringing on the intellectual property rights of any third party in these lawsuits or other claims and proceedings that may be asserted against us in the future, we could be subject to liabilities for such infringement, which could be material. We could also be required to refrain from using, manufacturing or selling certain products or using certain processes, either of which could have a material adverse effect on our business and operating results. From time to time, we have received, and may continue to receive in the future, notices of claims of infringement, misappropriation or misuse of other parties' proprietary rights. There can be no assurance that we will prevail in these discussions and actions or that other actions alleging infringement by us of third party patents will not be asserted or prosecuted against us. Furthermore, lawsuits like these may require significant time and expense to defend, may divert management's attention away from other aspects of our operations and, upon resolution, may have a material adverse effect on our business, results of operations, financial condition and cash flows. More information regarding the two pending suits is provided below under Part I. Item 3. "LEGAL PROCEEDINGS."

We license technology from third parties that we do not control and cannot be assured of retaining.

We rely upon certain technology, including hardware and software, licensed from third parties. There can be no assurance that the technology licensed by us will continue to provide competitive features and functionality or that licenses for technology currently utilized by us or other technology which we may seek to license in the future, will be available to us on commercially reasonable terms or at all. The loss of, or inability to maintain, existing licenses could result in shipment delays or reductions until equivalent technology or suitable alternative products could be developed, identified, licensed and integrated, and could harm our business. These licenses are on standard commercial terms made generally available by the companies providing the licenses. The cost and terms of these licenses individually are not material to our business.

Inability to protect our proprietary technology would disrupt our business.

We rely, in part, on trademark, copyright, and trade secret law to protect our intellectual property in the United States and abroad. We seek to protect our software, documentation, and other written materials under trade secret and copyright law, which afford only limited protection. We also rely, in part, on patent law to protect our intellectual property in the United States and internationally. As of March 31, 2012, we had been awarded 79 United States patents and have additional United States and foreign patent applications pending. We cannot predict whether such pending patent applications will result in issued patents that effectively protect our intellectual property. We may not be able to protect our proprietary rights in the United States or internationally (where effective intellectual property protection may be unavailable or limited), and competitors may independently develop technologies that are similar or superior to our technology, duplicate our technology or design around any patent of ours. We have, in the past, licensed and, in the future, expect to continue licensing our technology to others, many of whom are located or may be located abroad. There are no assurances that such licensees will protect our technology from misappropriation. Moreover, litigation may be necessary in the future to enforce our intellectual property rights, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Such litigation could result in substantial costs and diversion of management time and resources and could have a material adverse effect on our business, financial condition, and operating results. Any settlement or adverse determination in such litigation would also subject us to significant liability.

Our products must comply with industry standards, FCC regulations, state, local, country-specific and international regulations, and changes may require us to modify existing products and/or services.

In addition to reliability and quality standards, the market acceptance of telephony over broadband IP networks is dependent upon the adoption of industry standards so that products from multiple manufacturers are able to communicate with each other. Our VoIP telephony products rely heavily on communication standards such as SIP, MGCP and network standards such as TCP/IP and UDP to interoperate with other vendors' equipment. There is currently a lack of agreement among industry leaders about which standard should be used for a particular application, and about the definition of the standards themselves. These standards, as well as audio and video compression

standards, continue to evolve. We also must comply with certain rules and regulations of the FCC regarding electromagnetic radiation and safety standards established by Underwriters Laboratories, as well as similar regulations and standards applicable in other countries. Standards are continuously being modified and replaced. As standards evolve, we may be required to modify our existing products or develop and support new versions of our products. We must comply with certain federal, state and local requirements regarding how we interact with our customers, including marketing practices, consumer protection, privacy, and billing issues, the provision of 9-1-1 emergency service and the quality of service we provide to our customers. The failure of our products and services to comply, or delays in compliance, with various existing and evolving standards could delay or interrupt volume production of our VoIP telephony products, subject us

to fines or other imposed penalties, or harm the perception and adoption rates of our service, any of which would have a material adverse effect on our business, financial condition or operating results.

Our ability to offer services outside the U.S. is subject to different local regulatory environments, which may be unknown, complicated and uncertain.

Regulatory treatment of VoIP telephony outside the United States varies from country to country and often the laws are unclear. We currently distribute our products and services directly to consumers and through resellers that may be subject to telecommunications regulations in their home countries. The failure by us or our customers and resellers to comply with these laws and regulations could reduce our revenue and profitability. Because of our relationship with the resellers, some countries may assert that we are required to register as a telecommunications provider in that country. In such case, our failure to do so could subject us to fines or penalties. In addition, some countries are considering subjecting VoIP services to the regulations applied to traditional telephone companies. Regulatory developments such as these could have a material adverse effect on the use of our services in international locations.

Acquisitions may divert our management's attention, result in dilution to our stockholders and consume resources that are necessary to sustain our business.

In fiscal 2012, we made two business acquisitions. In fiscal 2011, we made one acquisition and one investment in another company and, if appropriate opportunities present themselves, we may make additional acquisitions or investments or enter into joint ventures or strategic alliances with other companies. Risks commonly encountered in such transactions include:

- The difficulty of assimilating the operations and personnel of the combined companies;
- The risk that we may not be able to integrate the acquired services or technologies with our current services, products, and technologies;
- The potential disruption of our ongoing business;
- The diversion of management attention from our existing business;
- The inability of management to maximize our financial and strategic position through the successful integration of the acquired businesses;
- Difficulty in maintaining controls, procedures, and policies;
- The impairment of relationships with employees, suppliers, and customers as a result of any integration;
- The loss of an acquired base of customers and accompanying revenue;
- The assumption of leased facilities, other long-term commitments or liabilities that could have a material adverse impact on our profitability and cash flow; and
- The dilution to our existing stockholders from the issuance of additional shares of common stock or reduction of earnings per outstanding share in connection with an acquisition that fails to increase the value of our company.

As a result of these potential problems and risks, businesses that we may acquire or invest in may not produce the revenue, earnings, or business synergies that we anticipated. In addition, there can be no assurance that any potential transaction will be successfully identified and completed or that, if completed, the acquired business or investment will generate sufficient revenue to offset the associated costs or other potential harmful effects on our business.

Increased taxes on our service will increase our customers' cost of using our service and/or reduce our profit margins (to the extent the costs are not passed through to our customers) and we may be subject to liabilities for past sales and additional taxes, surcharges and fees.

Until 2007, we did not collect or remit state or municipal taxes, such as sales, excise, and ad valorem taxes, fees or surcharges on the charges to our customers for our services, except that we have historically complied with the collection of California sales tax and financial contributions to the 9-1-1 system and the federal Universal Service Fund. We have received inquiries or demands from a number of state and municipal taxing agencies seeking payment of taxes, fees or surcharges that are applied to or collected from customers of providers of traditional public switched

telephone network services. Although we have consistently maintained that these taxes, fees or surcharges do not apply to our service for a variety of reasons depending on the statute or rule that establishes such obligations, a number of states have changed their statutes as part of streamlined sales tax initiatives and we are now collecting and remitting sales taxes in those states. The collection of these taxes, fees or surcharges will have the effect of decreasing any price advantage we may have over other providers who have historically paid these taxes and fees. Our compliance with these tax initiatives will also make us less competitive with those competitors who choose not to comply with these tax initiatives. Currently, three jurisdictions are conducting sales tax audits of our records. As of March 31, 2012, there has been no change in the status of the assessment. We collect and have accrued for taxes that we believe are

required to be remitted. While historically, the amounts that have been remitted have been within established accruals if our ultimate liability exceeds the accrued amount, it could result in significant charges to our earnings.

Our emergency and E-911 calling services are different from those offered by traditional wireline telephone companies and may expose us to significant liability. There may be risks associated with limitations associated with E-911 emergency dialing with the 8x8 service.

Both our emergency calling service and our E-911 calling service are different, in significant respects, from the emergency calling services offered by traditional wireline telephone companies. In each case, the differences may cause significant delays, or even failures, in callers' receipt of the emergency assistance they need.

We are offering E-911 service that is similar to the emergency calling services provided to customers of traditional wireline telephone companies in the same area. For those customers located in an E-911 area, emergency calls are routed directly to an emergency services dispatcher at the PSAP in the area of the customer's registered location. The dispatcher will have automatic access to the customer's telephone number and registered location information. If a customer moves their 8x8 service to a new location, the customer's registered location information must be updated and verified by the customer. Until that takes place, the customer will have to verbally advise the emergency dispatcher of his or her actual location at the time of an emergency 9-1-1 call. This can lead to delays in the delivery of emergency services.

The emergency calls of customers located in areas where we are currently unable to provide E-911 service as described above are supported by a national call center that is run by a third-party provider and operates 24 hours per day, seven days per week. These operators still receive the customer's registered service location and phone number automatically, and coordinate connecting the caller to the appropriate PSAP or emergency services provider and providing the customer's registered service location and phone number to those local authorities, which can also delay the delivery of emergency services. In the event that a customer experiences a broadband or power outage, or if a network failure were to occur, the customer will not be able to reach an emergency services provider using our services.

The FCC may determine that our nomadic emergency calling solution does not satisfy the requirements of its VoIP E-911 order because, in some instances, our nomadic emergency calling solution requires that we route an emergency call to a national emergency call center instead of connecting our customers directly to a local PSAP through a dedicated connection and through the appropriate selective router. The FCC may issue further guidance on compliance requirements in the future that might require us to disconnect those customers not receiving access to emergency services in a manner consistent with the VoIP E-911 order. The effect of such disconnections, monetary penalties, cease and desist orders or other enforcement actions initiated by the FCC or other agency or task force against us could have a material adverse effect on our business, financial condition or operating results.

Delays our customers may encounter when making emergency services calls and any inability of the answering point to automatically recognize the caller's location or telephone number can result in life threatening consequences. Customers may, in the future, attempt to hold us responsible for any loss, damage, personal injury or death suffered as a result of any failure of our E-911 services. In late July 2008, the President signed into law the "New and Emerging Technologies 911 Improvement Act of 2008." The law provides public safety, interconnected VoIP providers and others involved in handling 911 calls the same liability protections when handling 911 calls from interconnected VoIP users as from mobile or wired telephone service users. The applicability of the liability protections to our national call center solution is unclear at the present time. Also, we may be exposed to liability for 911 calls made prior to the adoption of this new law although we are unaware of any such liability.

The FCC may require us to deploy an E-911 service that automatically determines the location of our customers. The adoption of such a requirement could increase our costs that could make our service more expensive, decrease our profit margins, or both.

On June 1, 2007, the FCC released a Notice of Proposed Rulemaking in which it tentatively concluded that all interconnected VoIP service providers that allow customers to use their service in more than one location (nomadic VoIP service providers such as us) must utilize an automatic location technology that meets the same accuracy standards which apply to providers of commercial mobile radio services (mobile phone service providers). In September 2010, the FCC released a Notice of Inquiry again requesting comment on what type of automatic location standards should apply to providers of nomadic VoIP service providers, whether the FCC's rules concerning the delivery of emergency services should be extended beyond providers of interconnected VoIP services, and whether such emergency service obligations should apply to mobile VoIP applications used on smartphones, computers and other devices. In July 2011, the FCC released a Second Further Notice of Proposed

Rulemaking, seeking comment on a number of issues including (i) whether to apply the FCC's E-911 rules to "outbound-only" interconnected VoIP services (i.e., services that support placing calls to the PSTN); (ii) whether to adopt rules requiring all interconnected VoIP service to automatically provide location information for emergency calls; and (iii) whether to revise the FCC's definition of interconnected VoIP service to require an "Internet connection" rather than a broadband connection, and to "define connectivity in terms of the ability to connect calls to the United States E.164 telephone numbers rather than the PSTN." Also, the FCC released a Notice of Proposed Rulemaking that sought comment on whether any amendment of the definition of interconnected VoIP service should be limited to E-911 requirements, or should apply other regulatory requirements to these additional services. In September 2011, the FCC released a Notice of Proposed Rulemaking soliciting comment on what role the agency could play in the fostering the development and implementation of newer 911 technologies including, but not limited to, prioritization of 911 traffic triggered by an event such as a natural disaster, long-term implementation of IP-based alternatives for delivering different kinds of media to emergency call takers like video, photographs, and other forms of data, and text-to-911 solutions.

The outcome of these proceedings cannot be determined at this time and we may or may not be able to comply with any such obligations that may be adopted. At present, we currently have no means to automatically identify the physical location of one of our customers on the Internet. The FCC's VoIP E-911 order has increased our cost of doing business and may adversely affect our ability to deliver the 8x8 service to new and existing customers in all geographic regions or to nomadic customers who move to a location where emergency calling services compliant with the FCC's mandates are unavailable. Our compliance with and increased costs due to the FCC's VoIP E-911 order put us at a competitive disadvantage to those VoIP service providers who are either not subject to the requirements or have chosen not to comply with the FCC's mandates. We cannot guarantee that emergency calling service consistent with the VoIP E-911 order will be available to all of our customers, especially those accessing our services from outside of the United States. The FCC's current VoIP E-911 order or follow-on orders or clarifications or their impact on our customers due to service price increases or other factors could have a material adverse effect on our business, financial condition or operating results.

The FCC adopted orders reforming the system of payments between regulated carriers that we partner with to interface with the public switch telephone network. The rates we pay for the services performed by these carriers may increase as a result of the FCC's reform order. As a result, we may increase rates for service, making our offerings less competitive with others in the marketplace, or reduce our profitability.

The FCC reformed the system under which regulated providers of telecommunications services compensate each other for various types of traffic, including VoIP traffic that terminates on the PSTN and applied new call signaling requirements to VoIP and other service providers. The FCC's rules concerning charges for transmission of VoIP traffic could result in an increased cost to terminate the traffic absent specific agreements that provide the appropriate rate to be charged for such traffic when passed between us and other carriers. For VoIP traffic that terminates on the PSTN, the Order establishes a transitional framework that: (1) establishes default intercarrier compensation rates for "toll" VoIP-PSTN traffic that are equal to interstate access rates applicable to non-VoIP traffic; (2) establishes default intercarrier compensation rates for other VoIP-PSTN traffic that will be the applicable reciprocal compensation rates; and (3) allows regulated providers of telecommunications services to tariff these default charges in the relevant federal and state tariffs that apply in the absence of an agreement. The rules then provide for a multiyear transition to a national "bill- and-keep" framework as the ultimate end state for all telecommunications traffic exchanged with a local exchange carrier. Under bill- and-keep, providers do not charge an originating carrier for terminating traffic and instead recover the costs of termination from their own customers. To the extent that the company transmits traffic not subject to a specific intercarrier compensation arrangement and another provider were to assert that the traffic we exchange with them is subject to higher levels of compensation than we, or the third parties terminating our traffic to the PSTN, pay today (if any), our termination costs could initially increase, but ultimately will be reduced as the intercarrier compensation system transitions to a bill-and-keep framework. Accordingly, in the near term, our costs to terminate traffic to the PSTN may increase which could result in either us increasing the retail charges for our service offerings or reducing our profitability. But, over the longer term, we expect our costs to terminate traffic to the PSTN

to decline.

Recently, the FCC clarified its intercarrier compensation order with respect to the compensation arrangements for the origination of VoIP traffic. Pursuant to the clarification order, local exchange carriers will be able to tariff default charges, i.e., charges imposed in the absence of commercial agreements between parties exchanging traffic bound for the PSTN, equal to intrastate originating access for originating intrastate toll VoIP traffic. The order makes clear that VoIP traffic includes traffic that originates or terminates in IP, or both, and also without regard to whether the traffic originates in time-division multiplexing or Internet protocol format. Local exchange carriers will have the ability to tariff default charges for the origination of intrastate toll VoIP traffic at intrastate rates until June 30, 2014. Starting July 1, 2014, LECs will be permitted to tariff default rates equal to interstate originating access. For all interstate VoIP traffic, interstate access rates continue to apply,

consistent with the original order. At this time, we cannot predict what, if any, impact the FCC's clarification order will have on our business.

The FCC's Order reforming payments that carrier exchange for various type of traffic also imposes call signaling requirements on VoIP providers like us. To the extent that we cannot comply with these rules, we may be subject to fines, cease and desist orders, or other penalties.

The FCC Order reforming the system of compensation for various types of traffic also included rules to address calls for which identifying information is missing or masked in ways that impede billing for such traffic. The FCC's new rules require, among other things, interconnected VoIP providers, like us, that originate interstate or intrastate traffic destined for the PSTN, to transmit the telephone number associated with the calling party to the next provider in the call path. Intermediate providers must pass calling party number or charge number signaling information they receive from other providers unaltered, to subsequent providers in the call path. While we believe we are in compliance with this rule, to the extent that we pass traffic that does not have appropriate calling party number or charge number information, we could be subject to fines, cease and desist orders, or other penalties.

The FCC's Order reforming payments between carriers for various types of traffic also includes a Further Notice of Proposed Rulemaking. Depending on the rules adopted by the FCC in this proceeding, the payments we make to underlying carriers to access the Public Switched Telephone Network may increase, which may result in us increasing the retail price of our service, potentially making our offering less competitive with traditional providers of telecommunications services, or may reduce our profitability.

The FCC's Order reforming payments between carriers for various types of traffic includes a Further Notice of Proposed Rulemaking which may result in the FCC adopting additional rules applicable to the exchange of traffic between regulated providers of telecommunications services. While it is uncertain what rules, if any, the FCC will adopt and when the FCC may do so, it is possible that as a result of this proceeding the charges our underlying service providers assess us will increase when we send traffic to the Public Switched Telephone Network. Should this occur, we may have to raise the retail rate of our offering, potentially making our services less competitive with traditional providers of telecommunications services, or our profit margins may decrease. The FCC proceeding is ongoing and we cannot predict whether the FCC will act or what rules it may adopt nor can we predict what impact it may have on our business at this time.

A recent petition filed by tw telecom inc. with the FCC seeks an Order that its provision of facilities- based interconnected VoIP services should be classified as "telecommunications services," "telephone exchange services," and/or "exchange access" under relevant federal law. We cannot predict the outcome of this proceeding nor its impact on our business at this time.

In July 2011, the FCC released a Public Notice concerning a Petition for Declaratory Ruling filed by tw telecom inc. The Petitioner requests the FCC to clarify that incumbent providers of local telephone service, like AT&T and Verizon, allow for direct IP-to-IP interconnection with incumbent local exchange carriers for certain IP-based services. Specifically, tw telecom seeks direct IP-to-IP interconnection from incumbent local telephone companies for the transmission and routing of tw telecom's facilities-based VoIP services and for voice services that originate and terminate in Time Division Multiplexing format but are converted to IP format for transport (referred to by the industry as "IP-in-the-middle" voice services). Additionally, tw telecom is asking for the FCC to clarify that its facilities-based VoIP services are "telecommunications services" as well as "telephone exchange services" and/or "exchange access," as those terms are defined under the Communications Act of 1934, as amended by the Telecommunications Act of 1996. We cannot predict the outcome of this proceeding nor its potential impact on our business at this time. Depending on how the FCC rules on the tw telecom petition, we could be subject to greater regulation at the state level which would increase our costs of doing business. It is also possible that an adverse ruling by the FCC in this proceeding could change the intercarrier compensation rate that our carriers pay to handle our traffic which could also increase our costs. Increased costs to us may require us to raise our prices, making our

services less competitive, reduce our profit margins, or both.

The FCC may require providers like us to comply with regulations related to how we present bills to customers. The adoption of such obligations may require us to revise our bills and may increase our costs of providing service which could either result in price increases or reduce our profitability.

The FCC released an order with respect to preventing the placement of unauthorized charges on consumers' telephone bills, a practice referred to in the industry as "cramming." While the FCC did not extend regulations applicable to providers of traditional telephone services to interconnected VoIP providers to prevent "cramming" and other "Truth-in-Billing" requirements, the FCC indicated that it would continue to monitor the marketplace and may extend such obligation in the future. The proceeding remains open. We cannot predict the outcome of this proceeding, nor can we predict its potential impact on our business at this time. These events could increase our expenses, which would have an adverse effect on our operating results.

The FCC adopted rules concerning disabilities access requirements that may expand disabilities access requirements to additional services we offer.

In October, 2010, the "Twenty-First Century Communications and Video Accessibility Act" was signed into law. In October, 2011, the FCC adopted an order implementing the new accessibility requirements as well as released a Notice of Proposed Rulemaking concerning certain, additional, discrete issues. We cannot predict whether we will be subject to additional accessibility requirements or whether any of our service offerings that are not currently subject to disabilities access requirements will be subject to such obligations. These events could increase our expenses, which would have an adverse effect on our operating results.

There may be risks associated with our ability to comply with the requirements of federal law enforcement agencies.

The FCC requires all interconnected VoIP providers to comply with the Communications Assistance for Law Enforcement Act (CALEA). The FCC allows VoIP providers to comply with CALEA through the use of a solution provided by a trusted third party with the ability to extract call content and call-identifying information from a VoIP provider's network. While the FCC permits companies like us to use the services provided by these third parties to comply with CALEA, we are ultimately responsible for ensuring the timely delivery of call content and call-identifying information to law enforcement, and for protecting subscriber privacy.

We selected a partner to work with us to develop a solution for CALEA compliant lawful interception of communications and, as of May 14, 2007, we had installed this solution in our network operations and data centers, but had not yet completed certification testing of all required intercept capabilities of this equipment. We completed formal CALEA compliance testing with this partner in March 2009 and currently, our tested CALEA solution is fully deployed in our network. However, we could be subject to an enforcement action by the FCC or law enforcement agencies for any delays related to meeting, or if we fail to comply with, any current or future CALEA obligations.

There may be risks associated with our ability to comply with requirements of the Telecommunications Relay Service.

The FCC requires providers of interconnected VoIP services to comply with certain regulations pertaining to people with disabilities and to contribute to the Telecommunications Relay Services, or TRS, fund. We are also required to offer 7-1-1 abbreviated dialing for access to relay services. As of April 5, 2008, we have implemented a 7-1-1 system which routes such calls to the appropriate relay center based upon the customer's assigned telephone number. We may be subject to enforcement actions including, but not limited to, fines, cease and desist orders, or other penalties if the FCC believes we are not compliant with these new disability requirements.

There may be risks associated with our ability to comply with the requirements of federal and other regulations related to Customer Proprietary Network Information ("CPNI").

The FCC requires providers of interconnected VoIP services to comply with its customer proprietary network information, or CPNI, rules. CPNI includes information such as the phone numbers called by a consumer, the frequency, duration, and timing of such calls, and any services/features purchased by the consumer, such as call waiting, call forwarding, and caller ID, in addition to other information that may appear on a consumer's bill.

Under the FCC's rules, companies like us may not use CPNI without customer approval except in narrow circumstances related to the provision of existing services, and must comply with detailed customer approval processes when using CPNI outside of these narrow circumstances. The rules also require more stringent security measures for access to a customer's CPNI data in the form of required passwords for on-line access and call-in access to account information as well as customer notification of account or password changes.

At the present time, we do not utilize our customer's CPNI in a manner which would require us to obtain consent from our customers but, in the event that we do in the future, we will be required to adhere to specific CPNI rules aimed at marketing such services. Before December 8, 2007, we implemented internal processes in order to be in compliance with all of the FCC's CPNI rules. Our failure to achieve compliance with any future CPNI orders, rules, filings or standards, or any enforcement action initiated by the FCC or other agency, state or task force against us could have a material adverse effect on our

business, financial condition or operating results.

If we are unable to improve our process for local number portability provisioning, our growth may be negatively affected.

We support local number portability, or LNP, which allows our customers to retain their existing telephone numbers when subscribing to our services. Transferring numbers is a manual process that, in the past, has taken us 20 business days or longer, although we have taken steps to automate this process to reduce the delay. A new customer of our services must maintain both the new 8x8 service and the customer's existing telephone service during the number transfer process. By comparison, transferring wireless telephone numbers among wireless service providers generally takes several hours, and transferring wireline telephone numbers among traditional wireline service providers generally takes a few days. The additional delay that we experience is due to our reliance on third party carriers to transfer the numbers, as well as the delay the existing telephone service provider may contribute to the process. Local number portability is considered an important feature by many potential customers, especially our business customers, and if we fail to reduce related delays, we may experience increased difficulty in acquiring new customers or retaining existing customers. Moreover, the FCC requires interconnected VoIP providers, like us, to comply with industry standard timeframes and a shorter timeframe for certain types of ports. If we are unable to process ports within the requisite timeframes, we could be subject to fines and/or penalties. Additionally, both customers and carriers may seek relief from the relevant state public utility commission, the FCC, and/or in state or federal court.

The rates we pay to underlying telecommunications carriers may increase which may reduce our profitability and increase the retail price of our service.

The FCC has several open proceedings considering new rules that may impact charges that regulated telecommunications carriers assess each other for originating and terminating traffic. It is possible that the FCC will adopt new rules that subjects interconnected VoIP traffic to increased charges. Should this occur, the rates that we pay to our underlying carriers may increase which may reduce our profitability and may also increase the retail price of our service making our service less competitive with other providers of similar calling services. We cannot predict either the timing or the outcome of these proceedings.

Our success also depends on our ability to handle a large number of simultaneous calls, which our network may not be able to accommodate.

We expect the volume of simultaneous calls to increase significantly as the 8x8 subscriber base grows. Our network hardware and software may not be able to accommodate this additional volume. If we fail to maintain an appropriate level of operating performance, or if our service is disrupted, our reputation could be hurt and we could lose customers, all of which could have a material adverse effect on our business, financial condition or operating results.

We could be liable for breaches of security on our web site, fraudulent activities of our users, or the failure of third-party vendors to deliver credit card transaction processing services.

A fundamental requirement for operating an Internet-based, worldwide voice and video communications service and electronically billing our 8x8 customers is the secure transmission of confidential information and media over public networks. Although we have developed systems and processes that are designed to protect consumer information and prevent fraudulent credit card transactions and other security breaches, failure to mitigate such fraud or breaches may adversely affect our operating results. The law relating to the liability of providers of online payment services is currently unsettled and states may enact their own rules with which we may not comply. We rely on third party providers to process and guarantee payments made by 8x8 subscribers up to certain limits, and we may be unable to prevent our customers from fraudulently receiving

goods and services. Our liability risk will increase if a larger fraction of our 8x8 transactions involve fraudulent or disputed credit card transactions. Any costs we incur are expensed as incurred. Y: inline; FONT-SIZE: 10pt; FONT-FAMILY: times new roman"> 1,072 2,895

Total operating expenses	4,825	6,252
Operating income (loss)	1,808	(1,109)
Total other income, net	65	341
Income (loss) from continuing operations before income taxes	1,873	(768)
(Provision) for income taxes	(739)	(171)
Income (loss) from continuing operations	1,134	(939)
Income from discontinued operations	0	15
Net income (loss)	\$1,134	\$(924)

See accompanying notes to condensed consolidated financial statements

CLEARONE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)
(Unaudited)
(in thousands of dollars, except share and per share amounts)

	Three Months Ended	
	September 30, 2008	September 30, 2007
Basic earnings per common share from continuing operations	\$ 0.11	\$ (0.09)
Diluted earnings per common share from continuing operations	\$ 0.11	\$ (0.08)
Basic earnings per common share from discontinued operations	\$ -	\$ -
Diluted earnings per common share from discontinued operations	\$ -	\$ -
Basic earnings per common share	\$ 0.11	\$ (0.08)
Diluted earnings per common share	\$ 0.11	\$ (0.08)
Basic weighted average shares	10,112,787	10,961,256
Diluted weighted average shares	10,206,652	11,072,565
See accompanying notes to condensed consolidated financial statements		

CLEARONE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(in thousands of dollars)

	Three Months Ended September 30, 2008	September 30, 2007
Cash flows from operating activities:		
Net income (loss) from continuing operations	\$ 1,134	\$ (940)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by operating activities:		
Depreciation and amortization expense	181	188
Stock-based compensation	160	171
Write-off of inventory	27	331
(Gain) loss on disposal of assets and fixed assets write-offs	(5)	3
Provision for doubtful accounts	23	2
Changes in operating assets and liabilities:		
Accounts receivable	409	(133)
Deferred taxes	427	
Note receivable - Ken-A-Vision	29	40
Inventories	(2,985)	(558)
Prepaid expenses and other assets	337	(123)
Accounts payable	394	557
Accrued liabilities	52	1,537
Income taxes	198	(942)
Deferred product revenue	(115)	1,003
Net change in other assets/liabilities	(3)	1
Net cash provided by operating activities	263	1,137
Cash flows from investing activities:		
Purchase of property and equipment	(304)	(155)
Proceeds from the sale of property and equipment	-	-
Purchase of marketable securities	-	(5,681)
Sale of marketable securities	5,201	4,450
Net cash used in continuing investing activities	4,897	(1,386)
Net cash provided by discontinued investing activities	-	15
Net cash provided by (used in) investing activities	4,897	(1,371)
Cash flows from financing activities:		
Proceeds from common stock	6	455

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Common stock purchased and retired	(6,762)	(566)
Tax benefit attributable to exercise of stock options	-	69
Net cash (used in) financing activities	(6,756)	(42)
Net (decrease) in cash and cash equivalents	(1,596)	(276)
Cash and cash equivalents at the beginning of the period	3,327	2,782
Cash and cash equivalents at the end of the period	\$ 1,731	\$ 2,506

See accompanying notes to condensed consolidated financial statements

CLEARONE COMMUNICATIONS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Unaudited)
(in thousands of dollars)

	Three Months Ended	
	September 30, 2008	September 30, 2007
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$ 101	\$ 1,052
Supplemental disclosure of non-cash financing activities:		
Exchanged accounts receivable from a vendor with		
accounts payable to the same vendor	\$ 20	\$ 103
Adoption of FIN48	\$ -	\$ 295
See accompanying notes to condensed consolidated financial statements		

CLEARONE COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The accompanying interim consolidated financial statements for the three month periods ended September 30, 2008 and 2007 are not audited. Our consolidated financial statements are prepared in accordance with the requirements for unaudited interim periods, and consequently, do not include all disclosures required to be in conformity with accounting principles generally accepted in the United States of America. The accompanying consolidated financial statements contain all adjustments, consisting of normal recurring accruals, necessary for a fair presentation of our financial position as of September 30, 2008, and our results of operations and cash flows for the three month periods ended September 30, 2008 and 2007. The results of operations for the three month periods ended September 30, 2008 and 2007 are not necessarily indicative of the results for a full-year period. These interim consolidated financial statements should be read in conjunction with the financial statements included in our Annual Report on Form 10-K/A, for the year ended June 30, 2008 filed with the Securities and Exchange Commission (the "SEC").

2. Inventories

Inventories, net of reserves, consisted of the following as of September 30, 2008 and June 30, 2008 (in thousands):

	September 30, 2008	June 30, 2008
Raw materials	\$ 686	\$ 724
Finished goods	8,145	5,356
Consigned inventory	1,926	1,719
Total inventory	\$ 10,757	\$ 7,799

Our inventory increased approximately \$3 million during the three month period ending September 30, 2008 as we began stocking inventory in our Hong Kong facility in order to prepare for the fulfillment of the majority of our international orders from Hong Kong. Additionally, we built up safety stock of certain of our key products to mitigate stock-outs.

Consigned inventory represents inventory at distributors and other customers where revenue recognition criteria have not been achieved.

3. Stock-based Compensation

Stock-based compensation expense for the three month periods ended September 30, 2008 and 2007 has been allocated as follows (in thousands):

	Three months Ended September 30, 2008	2007
Cost of goods sold	\$ 24	\$ 17
Sales & marketing	14	22
Research & development	8	32

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General & administrative	114	100
Total stock-based compensation \$	160	\$ 171

As of September 30, 2008, the total remaining unrecognized compensation cost related to non-vested stock options, net of forfeitures, was approximately \$867,000. During the three months ended September 30, 2008 and 2007, we granted 7,500 and 315,000 stock options, respectively. We use judgment in determining the fair value of the share-based payments on the date of grant using an option-pricing model with assumptions regarding a number of highly complex and subjective variables. These variables include, but are not limited to, the risk-free interest rate of the awards, the expected life of the awards, the expected volatility over the term of the awards, the expected dividends of the awards, and an estimate of the amount of awards that are expected to be forfeited. We use the Black-Scholes option pricing model to determine the fair value of share-based payments granted under SFAS No. 123R and the original SFAS No. 123.

4. Discontinued Operations

Summary operating results of the discontinued operations are as follows (in thousands of dollars):

	Three Months Ended	
	September 30, 2008	September 30, 2007
Gain on disposal of discontinued operations:		
OM Video	\$ -	\$ 24
Total gain on disposal of discontinued operations	-	24
Income tax (provision) benefit:		
OM Video	\$ -	\$ (9)
Total income tax (provision) benefit	-	(9)
Total income from discontinued operations, net of income taxes:		
OM Video	\$ -	\$ 15
Total income from discontinued operations, net of income taxes	\$ -	\$ 15

OM Video

On March 4, 2005, we sold all of the issued and outstanding stock of our Canadian subsidiary, ClearOne Communications of Canada, Inc. ("ClearOne Canada") to 6351352 Canada Inc., a Canada corporation. ClearOne Canada owned all the issued and outstanding stock of Stechyson Electronics, Ltd., which conducted business under the name OM Video. We agreed to sell the stock of ClearOne Canada for \$200,000 in cash; a \$1.3 million note receivable over a 15-month period, with interest accruing on the unpaid balance at the rate of 5.3% per year; and contingent consideration ranging from 3.0% to 4.0% of related gross revenues over a five-year period. In June 2005, we were advised that the OM Purchaser had settled an action brought by the former employer of certain of OM Purchaser's owners and employees alleging violation of non-competition agreements. The settlement reportedly involved a cash payment and an agreement not to sell certain products for a period of one year. Based on an analysis of the facts and circumstances that existed at the end of fiscal 2005, and considering the guidance from Topic 5U of

the SEC Rules and Regulations, “Gain Recognition on the Sale of a Business or Operating Assets to a Highly Leveraged Entity,” the gain was recognized as cash was collected (as collection was not reasonably assured). Through December 31, 2005, all required payments had been made however, 6351352 Canada Inc. failed to make any subsequent, required payments under the note receivable until June 30, 2006, when we received a payment of \$50,000. We reevaluated our options and concluded that our best course of action was to enforce our security and appoint a receiver over the assets of OM Video. The amount of the promissory note and contingent earn-out provision was approximately \$660,000 which is net of \$632,000 collected through receivership.

5. Shareholders’ Equity

Our shareholders’ equity of \$26.5 million at September 30, 2008 declined approximately \$5.7 million from June 30, 2008. During the quarter ending September 30, 2008, we repurchased 1,342,620 shares for approximately \$6.8 million. The share repurchase was partially offset by net income of approximately \$1.1 million.

6. Income Taxes

During our first fiscal quarter of 2009, we recorded approximately \$121,000 related to unrecognized tax benefits that would favorably impact our effective tax rate if recognized. The total outstanding balance for liabilities related to unrecognized tax benefits at September 30, 2008 was \$1.3 million of which \$100,000 was associated with interest and penalties. We account for interest expense and penalties for unrecognized tax benefits as part of our income tax provision.

7. Contingent Liability

We have accrued for legal fees and costs of the probable amount the Company was able to estimate at September 30, 2008, of our contingent liability under indemnification agreements with two former officers. In accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies", we have accrued a total of \$3.3 million, the unpaid balance of which was about \$1.5 million at September 30, 2008 representing the probable amount that, as of the date of the financial statements, could be reasonably estimated of our contingent liability, through trial, under the indemnification agreements if required under applicable law. In accordance with SFAS No. 5, we will adjust our contingent liability, as necessary, to reflect the probable amount that can be reasonably estimated. Our actual liability may be higher or lower than the estimate upon final resolution of the matter. We will adjust our contingent liability, as needed, so that it remains an estimable and probable amount of our contingent financial liability as of the date of issuance of the applicable financial statements.

8. Investments

The following table displays the gross unrealized losses and fair value of our investments with unrealized losses that are not deemed to be other-than-temporarily impaired (in thousands) inclusive of the length of time the securities have been in a continuous unrealized loss position at September 30, 2008:

Description of Securities	Total - All Less than 12 Months	
	Fair Value	Unrealized Losses
Investments: Auction Rate Securities and Corporate Bonds	11,568	1,427

As of September 30, 2008, \$12.2 million of investments were invested in auction rate securities ("ARSs") which were in accordance with our investment policy. Recently, auctions for these securities were not successful, resulting in our continuing to hold these securities and the issuers paying interest at the maximum contractual rate.

While these failures in the auction process have affected our ability to access these funds in the near term, we do not believe that the long-term value of the underlying securities or collateral have been affected. Our ARSs are held at two different investment banks: UBS and Morgan Stanley. All but one of the ARS investments are AAA and/or Aaa rated. The other ARS is A2/A rated. Due to the current market conditions, we evaluated the accounting treatment of our ARS investments. In our evaluation, we have considered SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities and related guidance issued by the FASB and the Securities and Exchange Commission.

Changes in the unrealized holding losses on our marketable securities are reported as a separate component of accumulated other comprehensive income as follows (in thousands):

Three Months Ended

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	September 30, 2008	September 30, 2007
Balance, beginning of period	\$ (694)	\$ -
Unrealized holding (losses), in equity securities	(321)	-
Income tax benefit	120	-
Balance, end of period	\$ (895)	\$ -

During October 2008 we accepted offers to repurchase our ARSs, at par value, from the two investment banks that sold and continue to hold our ARSs. We believe we are eligible to participate in the offers and expect to sell them at par value in exchange for cash between November 2008 and January 2009.

9. Comprehensive Income

The components of comprehensive income (loss) are (in thousands):

	Three Months Ended	
	September 30,	September 30,
	2008	2007
Net income (loss)	\$ 1,134	\$ (924)
Other comprehensive income (loss):		
Unrealized gain (loss) on available-for-sale investment	(321)	0
Income tax benefit	120	0
Comprehensive Income (loss)	\$ 933	\$ (924)

10. Fair Value Measurements

We adopted SFAS No. 157 “Fair Value Measurements” (as impacted by SFAS 157-2) on July 1, 2008. This statement defines fair value, establishes a framework to measure fair value, and expands disclosures about fair value measurements. SFAS 157 defines fair value as the price that could be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a fair value hierarchy used to prioritize the quality and reliability of the information used to determine fair values. Categorization within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The fair value hierarchy is defined into the following three categories:

Level 1: Valuations based on quoted prices in active markets for identical instruments that we are able to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

Level 2: Valuations based on quoted prices in active markets for instruments that are similar, or quoted prices in markets that are not active for identical or similar instruments, and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets.

Level 3: Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

As of September 30, 2008, financial assets utilizing Level 1 inputs included short term investment securities traded on active securities exchanges. Financial assets utilizing Level 2 inputs included long term investments in auction rate securities. We did not have any financial assets utilizing Level 3 inputs. We did not have any liabilities that were required to be measured at fair value as of September 30, 2008.

Fair value is a market-based measure considered from the perspective of a market participant who holds the asset or owes the liability rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, our own assumptions are set to reflect those that market participants would use in pricing the asset or liability at the measurement date. We use prices and inputs that are current as of the measurement date, including

during periods of market dislocation, such as the recent illiquidity in the auction rate securities market. In periods of market dislocation, the observability of prices and inputs may be reduced for many instruments. This condition has caused, and in the future may cause, our financial instruments to be reclassified from Level 1 to Level 2.

SFAS No. 157 requires that the valuation techniques used by us are consistent with at least one of the three possible approaches: the market approach, income approach and/or cost approach. Our Level 1 valuations are based on the market approach and consist of quoted prices for identical items on active securities exchanges. Our Level 2 valuations are based on the income approach, specifically, discounted cash flow analyses which utilize significant inputs based on observable inputs.

The following table provides our financial assets carried at fair value measured on a recurring basis as of September 30, 2008 (in thousands):

	(in thousands)		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant other observable inputs (Level 2)	Total
Short-term available-for-sale securities	\$ 707	\$ -	\$ 707
Long-term available-for-sale securities	-	10,861	10,861
Total	\$ 707	\$ 10,861	\$ 11,568

Long term investment securities in the table above that are measured at fair value using significant other observable inputs (Level 2) include available-for-sale auction rate securities (See “Investments,” Note 8). These auction rate securities are valued based on the income approach, specifically, discounted cash flow analyses which utilize significant inputs including interest rate, security rating, and expected maturity dates.

11. Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (“SFAS No. 157”), which defines fair value, establishes guidelines for measuring fair value and expands disclosure regarding fair value measurements. SFAS No. 157 does not require new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, on a prospective basis. We adopted the requirements of SFAS 157 on July 1, 2008, the beginning our of 2009 fiscal year.

In February 2007, the FASB issued SFAS 159 “The Fair Value Option for Financial Assets and Financial Liabilities” (“SFAS” 159). This statement permits entities to choose to measure many financial instruments and certain other items at fair value that were not previously required to be measured at fair value. The objective of SFAS 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS 159 requires a business entity to report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. An entity may decide whether to elect the fair value option for each eligible item on its election date, subject to certain requirements described in the statement. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We adopted SFAS 159 on July 1, 2008, and elected not to establish the fair market option allowed for financial instruments and certain other items under this statement. Therefore, our adoption of this statement did not impact our financial statements during the three month period ended September 30, 2008.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) “Business Combinations” (SFAS 141R). SFAS 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R establishes disclosure requirements to enable the evaluation of the nature and

financial effects of the business combination. SFAS 141R is effective for the financial statements issued for fiscal years beginning after December 15, 2008. We are currently evaluating the potential impact, if any, that this statement may have on our consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 161 “Disclosures about Derivative Instruments and Hedging Activities” (“SFAS 161”). SFAS 161 requires additional disclosures related to how and why an entity uses derivative instruments and hedges, as well as how derivative instruments and hedges are accounted for in an entity’s financial statements. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. We are currently evaluating the potential impact, if any, that this statement may have on our consolidated financial position and results of operations.

12. Subsequent Events

Auction Rate Securities. During October 2008 we accepted offers to repurchase our Auction Rate Securities (ARSs), at par value, from the two investment banks that sold and continue to hold our ARSs. We believe we are eligible to participate in the offers and expect to sell them at par value in exchange for cash between November 2008 and January 2009. The total par value of our ARSs is approximately \$12.2 million. The two investment banks who have made the repurchase offers, UBS and Morgan Stanley, have each represented they have the financial resources to perform their obligations under the offers. However, there can be no assurance that either one or both investment banks can maintain the financial resources to satisfy their obligations under the repurchase offers.

Theft of Intellectual Property. On November 5, 2008, the jury returned a verdict in our favor in connection with our lawsuit against Biamp Systems Corporation, Versatile DSP, Inc., WideBand Solutions, Inc. and three of WideBand's principals. Accordingly, the jury awarded us approximately \$3.5 million in compensatory damages and \$7.0 million in punitive damages. Among other things, the jury found that all of the Defendants willfully and maliciously misappropriated our trade secrets. Based on that finding, the court may also award us exemplary damages and reasonable attorneys' fees. The court left in place the previously-entered preliminary injunction, pending our application for entry of a permanent injunction against the Defendants. While we intend to vigorously pursue collection of the damage awards, collectability of the judgments cannot be guaranteed. Furthermore, the jury's verdict and damage awards are subject to appeal by one or more of the Defendants.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). All statements in this report, other than statements of historical fact, are forward-looking statements for purposes of these provisions, including any projections of earnings, revenues or other financial items, any statements of the plans and objectives of management for future operations, any statements concerning proposed new products or services, any statements regarding future economic conditions or performance, and any statements of assumptions underlying any of the foregoing. All forward-looking statements included in this report are made as of the date hereof and are based on information available to us as of such date. We assume no obligation to update any forward-looking statement. In some cases, forward-looking statements can be identified by the use of terminology such as “may,” “will,” “expects,” “plans,” “anticipates,” “intends,” “believes,” “estimates,” “potential,” or “continue,” or the negative thereof or other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements contained herein are reasonable, there can be no assurance that any such expectations or any forward-looking statement will prove to be correct. Our actual results will vary, and may vary materially, from those projected or assumed in the forward-looking statements. Future financial condition and results of operations, as well as any forward-looking statements, are subject to inherent risks and uncertainties, including, without limitation, product recalls and product liability claims; infringement of our technology or assertion that our technology infringes the rights of other parties; termination of supplier relationships, or failure of suppliers to perform; inability to successfully manage growth; delays in obtaining regulatory approvals, or the failure to maintain such approvals; concentration of our revenues among a few customers, products and/or procedures; development of new products and technology that could render our products obsolete; market acceptance of new products; introduction of products in a timely fashion; price and product competition, availability of labor and materials, cost increases, and fluctuations in and obsolescence of inventory; volatility of the market price of our common stock; foreign currency fluctuations; changes in key personnel; work stoppage or transportation risks; and other factors referred to in our press releases and reports filed with the SEC, including our Annual Report on Form 10-K/A, for the year ended June 30, 2008. All subsequent forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by these cautionary statements. Additional factors that may have a direct bearing on our operating results are discussed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K/A for the year ended June 30, 2008.

BUSINESS OVERVIEW

We are an audio conferencing products company. We develop, manufacture, market, and service a comprehensive line of high-quality audio conferencing products, which range from personal conferencing products to tabletop conferencing phones to professionally installed audio systems. We also manufacture and sell conferencing furniture. We have a strong history of product innovation and plan to continue to apply our expertise in audio engineering to develop and introduce innovative new products and enhance our existing products. We believe the performance and reliability of our high-quality audio products create a natural communications environment which saves organizations of all sizes time and money by enabling more effective and efficient communication.

Our products are used by organizations of all sizes to accomplish effective group communication. Our end-users include some of the world’s largest and most prestigious companies and institutions, small and medium-sized businesses, educational institutions, and government organizations as well as individual consumers. We sell our products to these end-users primarily through a network of independent distributors who in turn sell our products to dealers, systems integrators, and value-added resellers. We also sell products on a limited basis directly to dealers, systems integrators, value-added resellers, and end-users.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our results of operations and financial condition are based upon our condensed consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. We review the accounting policies used in reporting our financial results on a regular basis. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. We evaluate our assumptions and estimates on an ongoing basis and may employ outside experts to assist in our evaluations. We believe that the estimates we use are reasonable; however, actual results could differ from those estimates. We believe the following critical accounting policies affect our more significant assumptions and estimates that we used to prepare our condensed consolidated financial statements.

Revenue and Associated Allowances for Revenue Adjustments and Doubtful Accounts

Included in continuing operations is product revenue, primarily from product sales to distributors, dealers, and end-users. Product revenue is recognized when (i) the products are shipped and any right of return expires, (ii) persuasive evidence of an arrangement exists, (iii) the price is fixed and determinable, and (iv) collection is reasonably assured.

We provide a right of return on product sales to distributors. Accordingly, revenue from product sales to distributors is not recognized until the return privilege has expired, which approximates when product is sold-through to customers of our distributors (dealers, system integrators, value-added resellers, and end-users) rather than when the product is initially shipped to a distributor. We evaluate, at each quarter-end, the inventory in the channel through information provided by certain of our distributors. The level of inventory in the channel will fluctuate up or down, each quarter, based upon our distributors' individual operations. Accordingly, each quarter-end revenue deferral is calculated and recorded based upon the underlying, estimated channel inventory at quarter-end. Although certain distributors provide certain channel inventory amounts, we make judgments and estimates with regard to the amount of inventory in the entire channel, for all customers and for all channel inventory items, and the appropriate revenue and cost of goods sold associated with those channel products. Although these assumptions and judgments regarding total channel inventory revenue and cost of goods sold could differ from actual amounts, we believe that our calculations are indicative of actual levels of inventory in the distribution channel. The amounts of deferred cost of goods sold were included in consigned inventory. The following table details the amount of deferred revenue, cost of goods sold, and gross profit at each quarter end for the 12-month period ended September 30, 2008 (in thousands).

	Deferred Revenue	Deferred Cost of Goods Sold	Deferred Gross Profit
September 30, 2008	\$ 4,432	\$ 1,926	\$ 2,506
June 30, 2008	4,547	1,719	2,828
March 31, 2008	4,206	1,757	2,449
December 31, 2007	4,980	1,859	3,121
September 30, 2007	5,875	2,149	3,726

We offer rebates and market development funds in some combination to certain of our distributors, dealers/resellers, and end-users based upon volume of product purchased by them. We record rebates as a reduction of revenue in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-22, "Accounting for Points and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future."

We offer credit terms on the sale of our products to a majority of our customers and perform ongoing credit evaluations of our customers' financial condition. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability or unwillingness of our customers to make required payments based upon our historical collection experience and expected collectability of all accounts receivable. Our actual bad debts in future periods may differ from our current estimates and the differences may be material, which may have an adverse impact on our future accounts receivable and cash position.

Accounting for Income Taxes

We are subject to income taxes in both the United States and in certain non-U.S. jurisdictions. We estimate our current tax position together with our future tax consequences attributable to temporary differences resulting from differing treatment of items, such as deferred revenue, depreciation, and other reserves for tax and accounting purposes. These temporary differences result in deferred tax assets and liabilities. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income, prior year carryback, or future reversals of existing taxable temporary differences. To the extent we believe that recovery is not more likely than not, we establish a valuation allowance against these deferred tax assets. Significant judgment is required in determining our provision for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our deferred tax assets. To the extent we establish a valuation allowance in a period, we must include and expense the allowance within the tax provision in the consolidated statement of operations.

Lower-of-Cost or Market Adjustments and Reserves for Excess and Obsolete Inventory

We account for our inventory on a first-in, first-out basis, and make appropriate adjustments on a quarterly basis to write-down the value of inventory to the lower-of-cost or market.

In order to determine what, if any, inventory needs to be written down, we perform a quarterly analysis of obsolete and slow-moving inventory. In general, we write-down our excess and obsolete inventory by an amount that is equal to the difference between the cost of the inventory and its estimated market value if market value is less than cost, based upon assumptions about future product life-cycles, product demand, and market conditions. Those items that are found to have a supply in excess of our estimated demand are considered to be slow-moving or obsolete and the appropriate reserve is made to write-down the value of that inventory to its realizable value. These charges are recorded in cost of goods sold. If there were to be a sudden and significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to increase our inventory allowances, and our gross profit could be adversely affected.

Stock-Based Compensation

We account for stock-based compensation in accordance with SFAS No. 123R, Share-Based Payment. Under the fair value recognition provisions of this statement, we measure share-based compensation cost at the grant date based on the value of the award and is recognized as expense over the vesting period. Judgment is required in estimating the amount of share-based awards that are expected to be forfeited. If actual results differ significantly from these estimates, stock-based compensation expense and our results of operations could be materially impacted.

SEASONALITY

Our audio conferencing products revenue has historically been strongest during our second and fourth quarters. There can be no assurance that any historic sales patterns will continue and, as a result, sales for any prior quarter are not necessarily indicative of the sales to be expected in any future quarter.

ANALYSIS OF RESULTS OF OPERATIONS

Results of Operations for the three months or the first fiscal quarter (“1Q”) ended September 30, 2008 and 2007

The following table sets forth certain items from our unaudited condensed consolidated statements of operations (in thousands) for the three months ended September 30, 2008 and 2007, together with the percentage of total revenue which each such item represents:

	Three Months Ended (in thousands)			
	September 30, 2008		September 30, 2007	
		% of Revenue		% of Revenue
Revenue:	\$ 10,258	100%	\$ 9,442	100%
Cost of goods sold:				
Total cost of goods sold	3,625	35%	4,299	46%
Gross profit	6,633	65%	5,143	54%
Operating expenses:				
Sales & marketing	1,977	19%	1,601	17%
Research and product development	1,776	17%	1,756	19%
General and administrative	1,072	10%	2,895	31%
Total operating expenses	\$ 4,825	47%	\$ 6,252	66%

Revenue

Revenue for 1Q 2009 increased 9%, or approximately \$816,000, compared to 1Q 2008. The 1Q 2009 increase was due primarily to continued growth in our professional audio and tabletop conferencing products which collectively increased approximately \$850,000 over 1Q 2008. The 1Q 2009 increases were partially offset by an approximate \$140,000 increase in our marketing related programs (e.g. marketing development funds, rebates, etc.) which, in accordance with generally accepted accounting principles, are accounted for as a reduction in revenue.

We evaluate, at each quarter-end, the inventory in the channel through information provided by certain of our distributors. The level of inventory in the channel will fluctuate up or down, each quarter, based upon our distributors' individual operations. Accordingly, each quarter-end revenue deferral is calculated and recorded based upon the underlying, estimated channel inventory at quarter-end. During 1Q 2009 and 2008, the net change in deferred revenue based on the net movement of inventory in the channel was a net recognition of \$115,000 and net deferral of \$1 million in revenue, respectively.

Costs of Goods Sold and Gross Profit

Costs of goods sold includes expenses associated with finished goods purchased from outsourced manufacturers, the manufacture of our products, including material and direct labor, our manufacturing and operations organization,

property and equipment depreciation, warranty expense, freight expense, royalty payments, and the allocation of overhead expenses.

Our gross profit margin (GPM), gross profit as a percentage of sales, was 65% and 54% in 1Q 2009 and 1Q 2008, respectively. 1Q 2009 GPM was significantly higher than in the same period of 2008 due primarily to a favorable mix of higher margin product revenue in 1Q 2009, led by our professional audio conferencing products, in addition to product cost efficiencies, lower inventory obsolescence reserve requirements and lower unfavorable manufacturing variances.

Operating Expenses

1Q 2009 operating expenses were \$4.8 million, a decrease of \$1.4 million, or 23%, from \$6.3 million in 1Q 2008. The following is a more detailed discussion of expenses related to sales and marketing, general and administrative, and research and product development.

Sales and Marketing expenses S&M expenses include selling, customer service, and marketing expenses such as employee-related costs, allocations of overhead expenses, trade shows, and other advertising and selling expenses. 1Q 2009 S&M expenses increased approximately \$376,000, or 23%, to \$2.0 million compared to 1Q 2008 expenses of \$1.6 million. As a percentage of revenue, 1Q 2009 and 2008 marketing and selling expenses were 19% and 17%, respectively. The 1Q 2009 increase in S&M expenses over 1Q 2008 was due primarily to increased sales commissions paid to independent manufacturer sales representatives. During 1Q 2009 we began paying certain independent sales representatives commissions directly. These were formerly paid by certain our distributors.

Research and Development expenses R&D expenses include research and development and product line management, including employee-related costs, outside services, expensed materials, depreciation, and an allocation of overhead expenses. R&D expenses of \$1.8 million were about the same in both 1Q 2009 and 2008. As a percentage of revenue, 1Q 2009 and 2008 R&D expenses were 17% and 19%, respectively. The 1Q 2009 percentage decrease was due to our higher 1Q 2009 revenue.

General and Administrative expenses G&A expenses include employee-related costs, professional service fees, allocations of overhead expenses, litigation costs and corporate administrative costs, including finance and human resources. 1Q 2009 G&A expenses decreased \$1.8 million to \$1.1 million compared to 1Q 2008 expenses of \$2.9 million. 1Q 2009 and 2008 G&A expenses were 10% and 31% of sales, respectively. The significant 1Q 2009 decrease was primarily due to the 1Q 2008 estimation and establishment of a \$1.8 million accrual for a contingent liability. Also, during 1Q 2008 we paid Edward D. Bagley, our former director and Chairman the sum of \$200,000 upon his resignation and in consideration for his service as a director of the Company since 1994.

Operating income (loss) 1Q 2009 operating income was \$1.8 million compared to an operating (loss) of (\$1.1 million) in 1Q 2008. The 1Q 2009 operating income increase of approximately \$2.9 million was due primarily to the non recurrence of the \$1.8 million contingent liability charged to G&A expenses in 1Q 2008 in addition to the higher revenue and associated gross profit in 1Q 2009 discussed above.

Other income, net Other income, net, includes interest income, interest expense, capital gains, gain (loss) on the disposal of assets, and currency gain (loss). 1Q 2009 other income was \$65,000 compared to \$341,000 in 1Q 2008. The \$276,000 decrease in 1Q 2009 was due primarily to our lower cash and investment balances in addition to lower interest rates on our investments compared to the same period last year.

Income from discontinued operations, net of tax During 1Q 2008 we recorded income from discontinued operations, net of tax of \$15,000 which was related to funds received through the receivership of OM Video. We did not have any income from discontinued operations in 1Q 2009.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was \$263,000 in 1Q 2009, a decrease of \$874,000 from the net cash provided by operating activities of \$1.1 million in 1Q 2008. The year-over-year decrease can be attributed primarily to an additional \$2.4 million used in 1Q 2009 to purchase inventory to stock our new Asia-Pacific support center and build up safety stock of certain key products to mitigate stock-outs. We also realized approximately \$300,000 lower inventory write-offs in 1Q 2009 from 1Q 2008. These decreases were partially offset by a \$2.1 million net income increase in 1Q 2009 over the same period last year.

Net cash flows provided by investing activities were \$4.9 million in 1Q 2009, an increase of about \$6.3 million from 1Q 2008. During 1Q 2009 we converted about \$5.2 million of marketable securities to cash in order to fund our 1Q 2009 repurchase of common stock.

Net cash (used in) financing activities in 1Q 2009 totaled (\$6.8 million) for our repurchase of 1,342,620 shares of common stock. Net cash (used in) financing activities in 1Q 2008 totaled (\$42,000) and was attributed to our repurchase of approximately 88,000 shares of common stock for \$566,000, partially offset by the receipt of \$455,000 from the exercise of stock options and \$69,000 related to the tax benefit attributable to the exercise of those stock options.

Additionally in 1Q 2009, we paid approximately \$100,000 in income taxes and exchanged \$20,000 of accounts receivable from a vendor with accounts payable to the same vendor.

During September 2008 we entered into a demand margin loan agreement with UBS Financial Services, Inc., which enables us to borrow up to \$3,870,000 at an interest rate based on the 30-day LIBOR rate plus 25 basis points.

During October 2008 we accepted offers to repurchase our currently illiquid Auction Rate Securities (ARSs), at par value, from the two investment banks that sold and continue to hold our ARSs. We believe we are eligible to participate in the offers and expect to sell them at par value in exchange for cash between November 2008 and January 2009. The total par value of our ARSs is approximately \$12.2 million.

We currently believe that our present sources of liquidity and capital are adequate for our current operations and for the foreseeable future.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk has not changed materially since June 30, 2008.

Item 4. CONTROLS AND PROCEDURES

An evaluation of the effectiveness of our disclosure controls and procedures as of September 30, 2008 was performed under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer. Based on that evaluation, our management, including our Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported as specified in the SEC's rules and forms.

There was no change in our internal control over financial reporting during the quarter ended September 30, 2008 that materially affected, or that we believe is reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Legal Proceedings. In addition to the legal proceedings described below, we are also involved from time to time in various claims and other legal proceedings which arise in the normal course of business. Such matters are subject to many uncertainties and outcomes that are not predictable.

Former Officer Indemnification. On July 25, 2007, the U.S. Attorney's Office for the District of Utah indicted two of our former officers, Frances Flood and Susie Strohm, for allegedly causing us to issue materially misstated financial statements for our 2001 and 2002 fiscal years. On January 31, 2008, the U.S. Attorney's Office filed a superseding indictment further alleging perjury in connection with the prior investigation by the SEC into the alleged misstatements. We are cooperating fully with the U.S. Attorney's Office in this matter and have been advised that we are neither a target nor a subject of the investigation or indictment. In December 2003, we entered into indemnification agreements with each former officer, requiring payment of all reasonable attorney's fees and costs incurred in defending against the charges in certain circumstances consistent with and subject to limitations under applicable law. To date, we have paid approximately \$1.8 million in reasonable attorney's fees and costs to defend against the charges. We have been informed that a trial date has been set for February 2, 2009. As of October 29, 2008, these former officers have requested advancement of approximately an additional \$550,000 in legal fees and costs incurred as of that date, which amounts we have not paid. On August 21, 2008, Ms. Strohm and her counsel filed a lawsuit in the Third Judicial District Court in Salt Lake City, Utah seeking a declaratory judgment and injunctive relief to compel us to continue to advance Ms. Strohm's attorney's fees and costs to defend against the charges, plus interest for amounts previously requested and not paid. Also on August 21, 2008, Ms. Flood filed a lawsuit in Federal District Court for the District of Utah, seeking similar relief.

We have accrued for legal fees and costs of the probable amount we were able to estimate of our contingent liability under the indemnification agreements at September 30, 2008. In accordance with Statement of Financial Accounting Standards No. 5, "Accounting for Contingencies", we have accrued a total of \$3.3 million, the balance of which was about \$1.5 million at September 30, 2008 representing the probable amount that, as of the date of the financial statements, could be reasonably estimated of our contingent liability, through trial, under the indemnification agreements if required under applicable law. In accordance with SFAS No. 5, we will adjust our contingent liability, as necessary, to reflect the probable amount that can be reasonably estimated. Our actual liability may be higher or lower than our estimate upon final resolution of the matter. We will adjust our contingent liability, as needed, so that it remains an estimable and probable amount of our contingent financial liability as of the date of issuance of the applicable financial statements.

Theft of Intellectual Property and Copyright Complaints. During January 2007, we filed a lawsuit in the Third Judicial District Court, Salt Lake County, State of Utah against WideBand Solutions, Inc. and two of its principals, one of which was a former employee named Dr. Jun Yang, and one of which was previously affiliated with an entity that sold certain assets to us (the "Intellectual Property Case"). We also brought claims against Biamp Systems Corporation, Inc. The matter was subsequently removed to federal court, the United States District Court, District of Utah, Central Division. The case is styled ClearOne Communications, Inc. v. Jun Yang, et. al. Civil No. 2:07-co-37 TC. The complaint brings claims against different combinations of the defendants for, among other things, misappropriation of certain trade secrets, breach of contract, conversion, unjust enrichment and intentional interference with business and contractual relations, primarily in relation to certain algorithms and computer code. The relief being sought by us includes an order enjoining the defendants from further use of our trade secrets and an award consisting of, among other things, compensation and damages related to the unjust enrichment of the defendants. The court subsequently granted leave to add a third WideBand principal as a defendant to the case. In August 2007, we filed a motion for a preliminary injunction in the Intellectual Property Case, in the United States

District Court, District of Utah, seeking to enjoin Wideband Solutions, Inc. from licensing certain technology we believe constitutes our intellectual property and trade secrets to Harman Music Group, Inc. On September 13, 2007, the court in the Intellectual Property Case granted us leave to add Harman and a former ClearOne employee working for Harman as defendants in that case. For procedural reasons, these claims against Harman and the Harman employee were refiled in Utah state court, the Third Judicial District Court for Salt Lake County, on September 18, 2007 (the "Harman Case"). Like the Intellectual Property Case, the Harman Case also brings claims related to the theft and misuse of our confidential and trade secret information. During October 2007, the court issued an injunction ordering Dr. Yang and others under his direction from working on or delivering any source or object code to Harman until the completion of the trial. During November 2007, the court required us to post a bond of approximately \$908,000, which was subsequently reduced to \$210,000.

During October 2007, we filed a second action against WideBand and the same three principals named as defendants in the Intellectual Property Case, this time alleging copyright infringement (the "Copyright Case"). The claims in the Copyright Case arise out of a copyright issued to us for the same intellectual property, including the algorithms and computer code that is the subject of the claims in the Intellectual Property Case. The relief being sought by us includes an order enjoining the defendants from further use of our copyrighted material, and an award consisting of, among other things, compensation and damages related to the copyright infringement.

On May 12, 2008 the court granted us leave to add Versatile DSP, Inc. as a defendant.

During June 2008, we filed a separate action in the United States District Court, District of Utah, Central Division, against an affiliate of WideBand and Donald Bowers, which claims for declaratory judgment, fraudulent transfer under Utah law, and misappropriation of trade secrets. During June 2008, the United States District Court entered an order granting our request for a temporary restraining order against any sale or transfer of ownership of certain assets of WideBand to its affiliated entity, and imposes certain prohibitions against any sale or transfer of ownership of certain of WideBand's computer code and related algorithms and against any transfer of profits from the disputed code.

On November 5, 2008, the jury returned a verdict in our favor and awarded us approximately \$3.5 million in compensatory damages and \$7.0 million in punitive damages. Among other things, the jury found that all of the Defendants willfully and maliciously misappropriated our trade secrets. Based on that finding, the court may also award us exemplary damages and reasonable attorneys' fees. The court left in place the previously-entered preliminary injunction, pending our application for entry of a permanent injunction against the Defendants. While we intend to vigorously pursue collection of the damage awards, collectability of the judgments cannot be guaranteed. Furthermore, the jury's verdict and damage awards are subject to appeal by one or more of the Defendants.

The Shareholder Derivative Actions. Between March and August 2003, four shareholder derivative actions were filed in the Third Judicial District Court of Salt Lake County, State of Utah, by certain of our shareholders against various present and past officers and directors and against Ernst & Young. The complaints asserted allegations similar to those asserted in the SEC complaint that was filed on January 15, 2003 with regard to alleged improper revenue recognition practices and the shareholders' class action that was filed on June 30, 2003. The complaints further alleged that (a) the defendant directors and officers violated their fiduciary duties to us by causing or allowing us to recognize revenue in violation of U.S. GAAP and to issue materially misstated financial statements, and (b) Ernst & Young breached its professional responsibilities to us and acted in violation of U.S. GAAP and generally accepted auditing standards by failing to identify or prevent the alleged revenue recognition violations and by issuing unqualified audit opinions with respect to our fiscal 2002 and 2001 financial statements. One of these actions was dismissed without prejudice during June 2003. As to the other three actions, our Board of Directors appointed a special litigation committee of independent directors to evaluate the claims, which determined that the maintenance of the derivative proceedings against the individual defendants was not in our best interests. Accordingly, during December 2003, we moved to dismiss those claims. During March 2004, our motions were granted, and the derivative claims were dismissed with prejudice as to all defendants except Ernst & Young. We were substituted as the plaintiff in the action and are now pursuing in our own name the claims against Ernst & Young. The dates of the arbitration case management have been scheduled including commencement of the hearing on April 20, 2009.

ITEM 1A. RISK FACTORS

In addition to other information set forth in this Report, you should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K/A for the year ended June 30, 2008, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K/A are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition and/or operating results.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table details purchases by us of our own securities during 1Q 2009.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May be Purchased Under the Plans or Programs (2)
July 1, 2008 – July 31, 2008	0	N/A	0	\$276,573
August 1, 2008 – August 31, 2008	0	N/A	0	\$276,573
September 1, 2008 – September 30, 2008 (1)	1,342,620	\$5.00	1,342,620	\$10,000,000
Total	1,342,620		1,342,620	

- (1) On August 11, 2008 we announced that our Board of Directors authorized the repurchase of up to 2,000,000 of our shares in a modified Dutch auction tender offer at a price per share of no less than \$4.00 and no greater than \$5.00 per share. Under the tender offer, which expired on September 16, 2008, we repurchased 1,342,620 shares, or approximately 13% of shares outstanding, for approximately \$6.75 million at a price per share of \$5.00.
- (2) On August 30, 2007, we announced that our Board of Directors had approved a stock repurchase program to purchase up to \$3,625,000 of our common stock during the following 12 month period in open market and private block transactions. On May 1, 2008 we announced that our Board of Directors authorized the purchase of up to an additional \$1 million of our common stock. The stock repurchase program expired on August 30, 2008. \$276,573 of the board approved repurchases remained and were available for purchase during July and August 2008.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable

Item 5. OTHER INFORMATION

Not applicable.

Item 6. EXHIBITS

Exhibit No.	Title of Document	Location
10.13	Warehouse Lease Agreement between CB Center, LLC and ClearOne Communications, Inc. dated October 13, 2008	T h i s filing
31.1	Section 302 Certification of Chief Executive Officer	This filing
31.2	Section 302 Certification of Principal Financial Officer	This filing
32.1	Section 906 Certification of Chief Executive Officer	This filing
32.2	Section 906 Certification of Principal Financial Officer	This filing

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CLEARONE COMMUNICATIONS, INC.

November 11, 2008

By:

/s/ Zeynep Hakimoglu
Zeynep Hakimoglu
President and Chief Executive Officer
(Principal Executive Officer)

November 11, 2008

By:

/s/ Greg A. LeClaire
Greg A. LeClaire
Chief Financial Officer
(Principal Financial and Accounting Officer)